

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**FINANCIAL STATEMENTS**

**September 30, 2011 and 2010**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council  
Grand Island, Nebraska

We have audited the accompanying financial statements of the City of Grand Island, Nebraska, Water Department, as of and for the years ended September 30, 2011 and 2010, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A, the financial statements present only the City of Grand Island, Nebraska, Water Department, and do not purport to, and do not, present fairly the financial position of the City of Grand Island, Nebraska, as of September 30, 2011 and 2010, and the change in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Island, Nebraska, Water Department, as of September 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012, on our consideration of the City of Grand Island, Nebraska, Water Department'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The City of Grand Island, Nebraska, Water Department has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements of the City of Grand Island, Nebraska, Water Department. The accompanying other supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

*Almgvist, Malthahn,  
Galloway & Luth, P.C.*

Grand Island, Nebraska  
January 26, 2012

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**STATEMENTS OF NET ASSETS**

**September 30,**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,588,750	\$ 1,108,197
Investments	2,520,270	2,661,255
Receivables:		
Accounts, net of allowance for doubtful accounts of \$26,399 at September 30, 2011, and \$28,056 at September 30, 2010	401,726	448,678
Unbilled revenue	229,059	234,754
Interest	9,033	12,698
Special assessments	68,729	133,990
Inventory	278,278	278,506
Prepaid expense	12,159	10,631
Total current assets	5,108,004	4,888,709
Noncurrent assets:		
Restricted cash and cash equivalents	100,511	100,571
Restricted investments	412,219	410,000
Unamortized bond costs	3,573	5,982
Capital assets:		
Construction in progress	597,960	362,156
Distribution and collection systems	51,290,121	49,250,039
Buildings and equipment	3,230,954	3,219,692
Less accumulated depreciation	(12,141,603)	(11,526,932)
Net capital assets	42,977,432	41,304,955
Total noncurrent assets	43,493,735	41,821,508
<b>Total assets</b>	48,601,739	46,710,217
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	383,364	148,280
Accrued expenses	230,823	235,758
Current portion of long-term obligations	350,000	335,000
Total current liabilities	964,187	719,038
Noncurrent liabilities:		
Compensated absences, noncurrent	39,090	35,133
Noncurrent portion of long-term obligations	745,000	1,095,000
Total liabilities	1,748,277	1,849,171
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	41,886,005	39,880,937
Restricted for:		
Debt service	512,730	510,571
Unrestricted	4,454,727	4,469,538
<b>Total net assets</b>	\$ 46,853,462	\$ 44,861,046

See notes to financial statements.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**For the years ended September 30,**

	<u>2011</u>	<u>2010</u>
<b>Operating revenues:</b>		
Sale of water:		
Consumers	\$ 4,115,419	\$ 4,102,915
Municipal and interdepartmental	83,499	89,974
Total sales	<u>4,198,918</u>	<u>4,192,889</u>
Tap fees	6,434	-
Other revenue	<u>212,019</u>	<u>187,121</u>
Total operating revenues	4,417,371	4,380,010
<b>Operating expenses:</b>		
Production	876,200	849,291
Operation	840,525	825,510
Consumer accounting and collection	441,217	440,029
Employee benefits and payroll	152,177	165,356
General office expense	6,573	5,220
Special services	95,643	82,172
Insurance	9,009	11,918
Miscellaneous	170,729	180,474
Depreciation	640,932	606,684
Amortization	<u>2,410</u>	<u>2,975</u>
Total operating expenses	<u>3,235,415</u>	<u>3,169,629</u>
Operating income	1,181,956	1,210,381
<b>Nonoperating revenues (expenses):</b>		
Interest income	27,654	56,347
Contribution in aid of construction	900,963	1,109,356
Payments in lieu of taxes	(54,683)	(56,792)
Interest expense	<u>(63,474)</u>	<u>(77,965)</u>
Total nonoperating revenues (expenses)	<u>810,460</u>	<u>1,030,946</u>
<b>Change in net assets</b>	1,992,416	2,241,327
Net assets, beginning of year	<u>44,861,046</u>	<u>42,619,719</u>
Net assets, end of year	<u>\$ 46,853,462</u>	<u>\$ 44,861,046</u>

See notes to financial statements.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**STATEMENTS OF CASH FLOWS**

**For the years ended September 30,**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 4,470,018	\$ 4,655,954
Cash paid to suppliers for goods and services	(2,004,468)	(1,971,996)
Cash paid to employees for services	(584,582)	(613,191)
Net cash provided by operating activities	<u>1,880,968</u>	<u>2,070,767</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments in lieu of taxes	(56,792)	(59,899)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of property and equipment	(1,113,486)	(166,485)
Proceeds on sale of capital assets	2,003	3,432
Principal payments on long-term debt	(335,000)	(320,000)
Interest paid	(67,285)	(81,525)
Net cash used in capital and related financing activities	<u>(1,513,768)</u>	<u>(564,578)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments redeemed	550,985	410,000
Investments purchased	(412,219)	(1,377,716)
Interest received	31,319	61,015
Net cash provided (used) by investing activities	<u>170,085</u>	<u>(906,701)</u>
Net increase (decrease) in cash and cash equivalents	480,493	539,589
Cash and cash equivalents - beginning of year	<u>1,208,768</u>	<u>669,179</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,689,261</u></u>	<u><u>\$ 1,208,768</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 1,588,750	\$ 1,108,197
Restricted cash and cash equivalents	100,511	100,571
Total cash and cash equivalents	<u><u>\$ 1,689,261</u></u>	<u><u>\$ 1,208,768</u></u>

See notes to financial statements.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**STATEMENTS OF CASH FLOWS, Continued**

**For the years ended September 30,**

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 1,181,956	\$ 1,210,381
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	640,932	606,684
Amortization	2,410	2,975
Change in assets and liabilities:		
Accounts receivable	52,647	275,944
Inventories	228	(13,168)
Prepaid expenses	(1,528)	1,287
Accounts payable and accrued expenses	4,323	(13,336)
	<u>\$ 1,880,968</u>	<u>\$ 2,070,767</u>
 <b>Supplemental cash flow information:</b>		
Acquisition of capital assets through developers' aid of construction	<u>\$ 900,963</u>	<u>\$ 1,109,356</u>
Accounts payable incurred for capital asset purchases	<u>\$ 329,752</u>	<u>\$ 94,049</u>

See notes to financial statements.



**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS**

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**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2011 and 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Grand Island, Nebraska, Water Department (Department), are prepared in accordance with generally accepted accounting principles (GAAP). The Department's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The financial statements referred to above present only the Department and do not purport to, and do not, present fairly the financial position of the City of Grand Island, Nebraska, as of September 30, 2011 and 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**1. Financial Reporting Entity**

The City of Grand Island, Nebraska, Water Department is a public utility accounted for as an enterprise fund by the City of Grand Island, Nebraska (City). The City Council has the authority to set rates and charges, incur debt, and significantly influence operations. The Department utilizes the National Association of Regulatory Utility Commissioners Uniform System of Accounts.

In determining the financial reporting entity, the Department complies with the provisions of GASB Statement No. 14 and Statement No. 39, and has included all organizations that make up the Department's legal entity and all component units. Consistent with applicable guidance, the criteria used by the Department to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. The Department includes organizations as component units under the following financial accountability criteria:

- (1) Organizations for which the Department appoints a voting majority of the organization's governing body and for which (a) the Department is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department.
- (2) Organizations which are fiscally dependent on the Department. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Department.

The Department is an enterprise fund of the City of Grand Island, Nebraska, and has determined that it has no component units for reporting purposes.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**2. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

The Department utilizes the “flow of economic resources” measurement focus and uses the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

**Basis of Accounting**

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Department’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and License prescribed by the Federal Energy Regulatory Commission (FERC). The Department prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). In reporting financial activity, applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins are applied, except for those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

The Department first applies unrestricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**3. Assets, Liabilities, and Equity**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Department considers cash on hand and in the bank, as well as cash and equity in pooled cash held by the City, 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 Department participates in a cash management pool, managed by the City. The Department's interest in this pool consists of \$2,520,270 and \$2,661,255 of investments and \$1,689,261 and \$1,208,767 of cash and cash equivalents at September 30, 2011 and 2010, respectively.

**Investments and Investment Income**

Investments in nonnegotiable certificates of deposits are carried at cost. Investment income consists of interest income from nonnegotiable certificates of deposit and cash and cash equivalents.

**Receivables**

Billings for the sale of water are generally rendered on a monthly basis. Accounts receivable are stated at the amount billed to customers, with credit extended on an unsecured basis. The Department provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 21 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. Estimated sales which have not been billed are accrued and recorded in the period to which they relate as unbilled revenues.

**Inventories**

Materials and supplies inventories are stated at cost, which does not exceed market. Cost is generally determined on a weighted-average basis.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**3. Assets, Liabilities, and Equity, continued**

**Restricted assets**

Restricted assets include cash and investments that are legally restricted as to their use. The restricted assets are related to debt service reserve accounts.

**Capital assets**

Utility plant additions and replacements are generally stated at cost. Costs of labor, materials, supervision, and other expenses incurred in making repairs and minor replacements and in maintaining the plant in efficient operating condition are charged to expense. Plant accounts are charged with the costs of betterments and replacements of plant, except minor replacements, and the accumulated provision for depreciation is charged with retirements, together with removal costs, less salvage. Contributed assets are capitalized at their fair market value at the date of contribution. Depreciation of property, plant, and equipment is computed at an overall composite rate of approximately 1.20 percent in 2011 and 1.21 percent in 2010.

Costs related to studies expected to result in construction and/or acquisition of additional utility plant are deferred pending completion. Upon completion, such costs are capitalized as part of the cost of the plant to be constructed or acquired. If a project is terminated, costs of studies related thereto are charged to expense in accordance with the rate-making treatment adopted.

The Department capitalizes interest costs as a component of productive capacity, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u><b>2011</b></u>	<u><b>2010</b></u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>63,474</u>	<u>77,965</u>
Total interest incurred	<u>\$ 63,474</u>	<u>\$ 77,965</u>

**Unamortized Bond Discount**

Bond discount fees for the Department are deferred and amortized over the life of the bonds using the “bonds outstanding” method.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**3. Assets, Liabilities, and Equity, continued**

**Compensated Absences**

All regular full-time employees earn sick leave and vacation leave. Employees accrue vacation leave at variable rates based on years of service. Sick leave accrues at a rate of eight hours per month of service. Union employees are eligible to receive annually one-half of their total accrued sick pay in excess of 960 hours at their current rate. Non-union employees are no longer eligible to receive one-half of their total accrued sick pay in excess of 960 hours. The final such payment for the non-union employees was made on September 30, 2010.

Compensated absences of the Department are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
September 30, 2011	\$ 119,212	\$ 9,323	\$ ( 8,824)	\$ 119,711	\$ 80,621
September 30, 2010	\$ 111,112	\$ 17,304	\$ ( 9,204)	\$ 119,212	\$ 84,079

**Long-term Debt**

The long-term debt consists of bonds payable.

**Net Asset Classifications**

Net Assets are classified into three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**4. Revenues, Expenditures, and Expenses**

**Revenues and Expenses**

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

**Contributions in Aid of Construction**

Contributions in aid of construction are development projects constructed and contributed by developers. These contributions are recorded at fair value when the development is complete and are considered imposed non-exchange transactions.

**NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local governmental unit, the Department is subject to various federal, state, and local laws and contractual regulations. An analysis of the Department's compliance with significant laws and regulations and demonstration of its stewardship over Department resources follows:

**1. Deposit Laws and Regulations**

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Department's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The Department's cash deposits, including certificates of deposit, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing demand deposits, up to \$250,000 for interest-bearing time deposits/savings, and all non-interest-bearing deposits are insured. Any cash deposits or certificates of deposit in excess of the FDIC limits are insured by collateral held by the pledging institution in the Department's name.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued**

**2. Debt Restrictions and Covenants**

*Bonds Payable*

The various bond ordinances relating to the bonds payable contain some restrictions or covenants that are financial-related. These include covenants such as debt service coverage requirements and required reserve account balances. The Department is in compliance with the bond restrictions and covenants.

**3. Budgetary Data**

An appropriated budget is adopted each fiscal period for the Department on the cash basis, which is consistent with State of Nebraska budget guidelines. Budgets are approved by the City Council.

**NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for the Department's various assets, liabilities, equity, revenues, and expenditures/expenses.

**1. Cash and Cash Equivalents**

**Deposits**

State law requires collateralization of all deposits with federal depository insurance or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The Department has been allocated a portion of the City's pooled cash. Of the pooled funds, none were uninsured and uncollateralized at September 30, 2011 and 2010.

The Department held certificates of deposit at September 30, 2011 and 2010, with a stated value of \$412,219 and \$410,000, respectively. At September 30, 2011 and 2010, the Department's deposits were not exposed to custodial credit risk.



**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued**

**1. Cash and Cash Equivalents, continued**

**Summary of Carrying Values**

The carrying values of pooled cash and deposits at September 30, 2011 and 2010, are included in the statement of net assets as follows:

	<u><b>2011</b></u>	<u><b>2010</b></u>
Equity in pooled cash	\$ 1,588,750	\$ 1,108,197
Equity in pooled investments	2,520,270	2,661,255
Equity in pooled cash – restricted	100,511	100,571
Certificates of deposit – restricted	<u>412,219</u>	<u>410,000</u>
	<u>\$ 4,621,750</u>	<u>\$ 4,280,023</u>

**2. Restricted Assets**

The restricted assets as of September 30, 2011 and 2010, are as follows:

	<u><b>2011</b></u>	<u><b>2010</b></u>
Restricted cash and cash equivalents	\$ 100,511	\$ 100,571
Restricted investments	<u>412,219</u>	<u>410,000</u>
	<u>\$ 512,730</u>	<u>\$ 510,571</u>

The restricted cash and cash equivalents represent the bond and interest sinking fund and the restricted investments represent the debt service reserve for the water bonds.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued**

**3. Capital Assets**

The major classes of property, plant, and equipment at September 30, 2011 and 2010, are shown below:

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Adjustments and Retirements</b>	<b>Reclass</b>	<b>Ending Balance</b>
Construction work-in-progress	\$ 362,156	\$ 2,304,149	\$ -	\$ (2,068,345)	\$ 597,960
Source of supply plant	6,449,996	-	-	114,756	6,564,752
Pumping plant	1,017,096	-	-	-	1,017,096
Water treatment plant	93,156	-	-	-	93,156
Transmission and distribution plant	41,689,791	-	(28,263)	1,953,589	43,615,117
General plant	3,219,692	11,262	-	-	3,230,954
Total property, plant, and equipment	52,831,887	2,315,411	(28,263)	-	55,119,035
Less accumulated depreciation	(11,526,932)	(640,932)	26,261	-	(12,141,603)
Net property, plant, and equipment	<u>\$41,304,955</u>	<u>\$ 1,674,479</u>	<u>\$ (2,002)</u>	<u>\$ -</u>	<u>\$ 42,977,432</u>
	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Adjustments and Retirements</b>	<b>Reclass</b>	<b>Ending Balance</b>
Construction work-in-progress	\$ 2,707,987	\$ 1,164,614	\$ -	\$(3,510,445)	\$ 362,156
Source of supply plant	6,369,526	-	-	80,470	6,449,996
Pumping plant	1,017,096	-	-	-	1,017,096
Water treatment plant	93,156	-	-	-	93,156
Transmission and distribution plant	38,266,596	-	(6,780)	3,429,975	41,689,791
General plant	3,203,304	16,388	-	-	3,219,692
Total property, plant, and equipment	51,657,665	1,181,002	(6,780)	-	52,831,887
Less accumulated depreciation	(10,923,596)	(606,684)	3,348	-	(11,526,932)
Net property, plant, and equipment	<u>\$ 40,734,069</u>	<u>\$ 574,318</u>	<u>\$ (3,432)</u>	<u>\$ -</u>	<u>\$ 41,304,955</u>

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued**

**4. Long-term Debt**

Long-term debt at September 30, 2011 and 2010, is shown below:

	<u>2011</u>	<u>2010</u>
<b>Revenue bonds:</b>		
Water Revenue Refunding Bonds, Series 1999, due annually to July 1, 2014, interest from 3.55% to 4.85%, secured by Water System revenue and a deposit in the debt service reserve account	\$ 1,095,000	\$ 1,430,000
Less current maturities	<u>350,000</u>	<u>335,000</u>
Noncurrent portion	<u>\$ 745,000</u>	<u>\$ 1,095,000</u>

Long-term debt activity for 2011 and 2010 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
2011	<u>\$1,430,000</u>	<u>\$ -</u>	<u>\$(335,000)</u>	<u>\$1,095,000</u>	<u>\$ 350,000</u>
2010	<u>\$1,750,000</u>	<u>\$ -</u>	<u>\$(320,000)</u>	<u>\$1,430,000</u>	<u>\$ 335,000</u>

The following is a summary of debt service requirements for the next five years and thereafter:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 350,000	\$ 52,043	\$ 402,043
2013	365,000	35,767	400,767
2014	380,000	18,430	398,430
2015	-	-	-
2016	-	-	-
	<u>\$ 1,095,000</u>	<u>\$ 106,240</u>	<u>\$ 1,201,240</u>

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued**

**4. Long-term Debt, continued**

The indentures under which the Department's revenue bonds were issued provide for the creation and maintenance of certain accounts. These accounts at September 30, 2011 and 2010, are shown in Note C2. There are a number of other limitations, restrictions, and covenants contained in the indentures under which the Department's revenue bonds were issued.

The bonds maturing on and after July 31, 2004, are subject to redemption at the option of the City prior to maturity at any time after March 3, 2004, in whole or in part, at par plus accrued interest to the date fixed for redemption.

**5. Payments to the City of Grand Island**

The Department is exempt from Federal and state income taxes and local property taxes. City ordinances provide for payments in lieu of taxes. The annual payment in lieu of taxes, amounting to \$54,683 and \$56,792 for 2011 and 2010, respectively, are set at one percent of the gross revenues of the Department. The Department does pay sales tax.

The City provides certain administrative services to the Department for which the Department pays fees to the City. These fees are included in special services expense and amount to \$83,100 and \$73,152 for the years ended September 30, 2011 and 2010, respectively.

**NOTE D – OTHER NOTES**

**1. Pension Plan**

The City has a defined contribution employees' pension plan in which employees of the Department participate. The plan requires any new employee working a minimum of 1,000 hours to participate in the plan. The plan requires participants to contribute six percent of participant earnings in order for the pension plan to meet Internal Revenue Service guidelines for tax deferred pension plans. The Department is required to match the participants' contributions. As of October 1, 1997, participants can elect to contribute an additional four percent of their earnings with no Department match.

All participants are fully vested in their own contributions and become vested in the Department's contribution at varying rates depending on their date of employment. Full vesting in the Department's contributions occurs after five years of participation in the plan. The participants' and Department's contributions were \$35,016 and \$35,016, respectively, for the year ended September 30, 2011, and \$34,053 and \$34,053, respectively, for the year ended September 30, 2010.

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2011 and 2010**

**NOTE D – OTHER NOTES, continued**

**2. Risk Management**

The Department participates in the City's self-insurance program administered by the City's Risk Management Division (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-insured loss fund. The Division provides first dollar coverage for all workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and automobile physical damage, as well as losses not covered by insurance. The department has had no claims or judgments exceeding this commercial coverage in any of the past three fiscal years. Budgeted premium amounts charged to the Department are placed in the appropriate fund maintained by the Division. Premium expense for the Department was approximately \$37,000 and \$40,000 for the years ended September 30, 2011 and 2010.

**3. Subsequent Events**

Management has evaluated subsequent events through January 26, 2012, the date on which the financial statements were available for issue.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF GRAND ISLAND, NEBRASKA  
WATER DEPARTMENT**

**OPERATING STATISTICS  
(Unaudited)**

**For the years ended September 30,**

	<u><b>2011</b></u>	<u><b>2010</b></u>
Average number of consumers billed during the year	15,765	15,604
Gallons of Water (in thousands)		
Pumped	4,526,177	4,648,591
Less:		
Used at plant	131	89
Turbine cooling water	711,966	629,125
Net water for sale	3,814,080	4,019,377
Sold (in thousands)	3,744,687	3,920,205
Unaccounted for (in thousands)	69,393	99,172
Percent of net water for sale unaccounted for	1.82%	2.47%



**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***

SHAREHOLDERS

Robert D. Almquist  
Phillip D. Maltzahn  
Terry T. Galloway  
Marcy J. Luth  
Heidi A. Ashby  
Christine R. Shenk

The Honorable Mayor and City Council  
City of Grand Island, Nebraska

We have audited the financial statements of the City of Grand Island, Nebraska, Water Department as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated January 26, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the City of Grand Island, Nebraska, Water Department's internal control over financial reporting as a basis for designing our auditing procedures 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 City of Grand Island, Nebraska, Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Grand Island, Nebraska, Water Department's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



## Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Grand Island, Nebraska, in a separate letter dated January 26, 2012.

This report is intended solely for the information of Management and the Mayor and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Angquist, Malthe  
Galloway: Luth, D.C.

Grand Island, Nebraska  
January 26, 2012