

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

FINANCIAL STATEMENTS

September 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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 18, 2013, 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.

Management of the City of Grand Island, Nebraska, Water Department has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Island, Nebraska, Water Department's basic financial statements as a whole. 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. The other supplementary information, as listed in the Table of Contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Amquist, Mathyalm,
Galloway & Luth, P.C.

Grand Island, Nebraska
January 18, 2013

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

STATEMENTS OF NET ASSETS

September 30,

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 415,972	\$ 1,588,750
Investments	2,737,801	2,520,270
Receivables:		
Accounts, net of allowance for doubtful accounts of \$25,475 at September 30, 2012, and \$26,399 at September 30, 2011	864,454	401,726
Unbilled revenue	299,452	229,059
Interest	9,082	9,033
Special assessments	53,018	68,729
Inventory	332,661	278,278
Prepaid expense	12,895	12,159
Total current assets	4,725,335	5,108,004
Noncurrent assets:		
Restricted cash and cash equivalents	412,319	100,511
Restricted investments	300,500	412,219
Unamortized bond costs	50,839	3,573
Capital assets:		
Construction in progress	7,332,221	597,960
Distribution and collection systems	53,012,679	51,290,121
Buildings and equipment	3,255,768	3,230,954
Less accumulated depreciation	(12,784,034)	(12,141,603)
Net capital assets	50,816,634	42,977,432
Total noncurrent assets	51,580,292	43,493,735
Total assets	56,305,627	48,601,739
LIABILITIES		
Current liabilities:		
Accounts payable	1,068,537	383,364
Accrued expenses	274,172	230,823
Current portion of long-term obligations	220,000	350,000
Total current liabilities	1,562,709	964,187
Noncurrent liabilities:		
Compensated absences, noncurrent	43,041	39,090
Noncurrent portion of long-term obligations	3,505,000	745,000
Total liabilities	5,110,750	1,748,277
NET ASSETS		
Invested in capital assets, net of related debt	47,142,473	41,886,005
Restricted for:		
Debt service	712,819	512,730
Unrestricted	3,339,585	4,454,727
Total net assets	\$ 51,194,877	\$ 46,853,462

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>2012</u>	<u>2011</u>
Operating revenues:		
Sale of water:		
Consumers	\$ 5,079,025	\$ 4,115,419
Municipal and interdepartmental	96,285	83,499
Total sales	<u>5,175,310</u>	<u>4,198,918</u>
Tap fees	1,795,043	6,434
Other revenue	<u>190,369</u>	<u>212,019</u>
Total operating revenues	7,160,722	4,417,371
Operating expenses:		
Production	1,259,225	876,200
Operation	890,135	840,525
Consumer accounting and collection	448,460	441,217
Employee benefits and payroll	167,984	152,177
General office expense	6,863	6,573
Special services	102,950	95,643
Insurance	12,190	9,009
Miscellaneous	203,528	170,729
Depreciation	663,944	640,932
Amortization	<u>4,884</u>	<u>2,410</u>
Total operating expenses	<u>3,760,163</u>	<u>3,235,415</u>
Operating income	3,400,559	1,181,956
Nonoperating revenues (expenses):		
Interest income	20,528	27,654
Gain on sale of assets	1,615	-
Contribution in aid of construction	1,058,847	900,963
Payments in lieu of taxes	(83,718)	(54,683)
Interest expense	<u>(56,416)</u>	<u>(63,474)</u>
Total nonoperating revenues (expenses)	<u>940,856</u>	<u>810,460</u>
Change in net assets	4,341,415	1,992,416
Net assets, beginning of year	<u>46,853,462</u>	<u>44,861,046</u>
Net assets, end of year	<u>\$ 51,194,877</u>	<u>\$ 46,853,462</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 6,627,601	\$ 4,470,018
Cash paid to suppliers for goods and services	(2,429,087)	(2,004,468)
Cash paid to employees for services	(606,441)	(584,582)
Net cash provided by operating activities	<u>3,592,073</u>	<u>1,880,968</u>
NONCAPITAL FINANCING ACTIVITIES:		
Payments in lieu of taxes	(54,683)	(56,792)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(6,844,939)	(1,113,486)
Proceeds on sale of capital assets	5,382	2,003
Proceeds from the issuance of bonds payable	3,725,000	-
Payment of bond fees	(52,150)	-
Principal payments on long-term debt	(1,095,000)	(335,000)
Interest paid	(51,320)	(67,285)
Net cash used in capital and related financing activities	<u>(4,313,027)</u>	<u>(1,513,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments redeemed	412,219	550,985
Investments purchased	(518,031)	(412,219)
Interest received	20,479	31,319
Net cash provided (used) by investing activities	<u>(85,333)</u>	<u>170,085</u>
Net increase (decrease) in cash and cash equivalents	(860,970)	480,493
Cash and cash equivalents - beginning of year	<u>1,689,261</u>	<u>1,208,768</u>
Cash and cash equivalents - end of year	<u><u>\$ 828,291</u></u>	<u><u>\$ 1,689,261</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 415,972	\$ 1,588,750
Restricted cash and cash equivalents	412,319	100,511
Total cash and cash equivalents	<u><u>\$ 828,291</u></u>	<u><u>\$ 1,689,261</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>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,400,559	\$ 1,181,956
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	663,944	640,932
Amortization	4,884	2,410
Change in assets and liabilities:		
Accounts receivable	(533,121)	52,647
Inventories	(54,383)	228
Prepaid expenses	(736)	(1,528)
Accounts payable and accrued expenses	110,926	4,323
	<u>\$ 3,592,073</u>	<u>\$ 1,880,968</u>
 Supplemental cash flow information:		
Acquisition of capital assets through developers' aid of construction	<u>\$ 1,058,847</u>	<u>\$ 900,963</u>
Accounts payable incurred for capital asset purchases	<u>\$ 917,168</u>	<u>\$ 329,752</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, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011

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, 2012 and 2011

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 \$2,737,801 and \$2,520,270 of investments and \$825,291 and \$1,689,261 of cash and cash equivalents at September 30, 2012 and 2011, 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, 2012 and 2011

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 1.19 percent in 2012 and 1.20 percent in 2011.

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>2012</u>	<u>2011</u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>56,416</u>	<u>63,474</u>
Total interest incurred	<u>\$ 56,416</u>	<u>\$ 63,474</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, 2012 and 2011

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, 2012	\$ 119,711	\$ 14,205	\$ (9,163)	\$ 124,753	\$ 81,712
September 30, 2011	\$ 119,212	\$ 9,323	\$ (8,824)	\$ 119,711	\$ 80,621

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, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011.

The Department held certificates of deposit at September 30, 2012 and 2011, with a stated value of \$300,500 and \$412,219, respectively. At September 30, 2012 and 2011, 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, 2012 and 2011

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, 2012 and 2011, are included in the statement of net assets as follows:

	<u>2012</u>	<u>2011</u>
Equity in pooled cash	\$ 415,972	\$ 1,588,750
Equity in pooled investments	2,737,801	2,520,270
Equity in pooled cash – restricted	412,319	100,511
Certificates of deposit – restricted	<u>300,500</u>	<u>412,219</u>
	<u>\$ 3,866,592</u>	<u>\$ 4,621,750</u>

2. Restricted Assets

The restricted assets as of September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Restricted cash and cash equivalents	\$ 412,319	\$ 100,511
Restricted investments	<u>300,500</u>	<u>412,219</u>
	<u>\$ 712,819</u>	<u>\$ 512,730</u>

The restricted cash at September 30, 2012 consists of \$111,951 of bond proceeds restricted for the water construction project and \$225,000 restricted for the Uranium removal system. The balance of the restricted cash and cash equivalents at September 30, 2012 and 2011, of \$75,368 and \$100,511, respectively, represent the bond and interest sinking fund. 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, 2012 and 2011

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

3. Capital Assets

The major classes of property, plant, and equipment at September 30, 2012 and 2011, are shown below:

	2012					
	Beginning Balance	Additions	Adjustments and Retirements		Reclass	Ending Balance
Construction work-in-progress	\$ 597,960	\$ 8,456,820	\$ -		\$(1,722,559)	\$ 7,332,221
Source of supply plant	6,564,752	-	-		-	6,564,752
Pumping plant	1,017,096	-	-		-	1,017,096
Water treatment plant	93,156	-	-		-	93,156
Transmission and distribution plant	43,615,117	-	-		1,722,559	45,337,676
General plant	<u>3,230,954</u>	<u>50,092</u>	<u>(25,279)</u>		<u>-</u>	<u>3,255,767</u>
Total property, plant, and equipment	55,119,035	8,506,912	(25,279)		-	63,600,668
Less accumulated depreciation	<u>(12,141,603)</u>	<u>(663,944)</u>	<u>21,513</u>		<u>-</u>	<u>(12,784,034)</u>
Net property, plant, and equipment	<u>\$ 42,977,432</u>	<u>\$ 7,842,968</u>	<u>\$ (3,766)</u>		<u>\$ -</u>	<u>\$ 50,816,634</u>
	2011					
	Beginning Balance	Additions	Adjustments and Retirements		Reclass	Ending Balance
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	<u>3,219,692</u>	<u>11,262</u>	<u>-</u>		<u>-</u>	<u>3,230,954</u>
Total property, plant, and equipment	52,831,887	2,315,411	(28,263)		-	55,119,035
Less accumulated depreciation	<u>(11,526,932)</u>	<u>(640,932)</u>	<u>26,261</u>		<u>-</u>	<u>(12,141,603)</u>
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>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012 and 2011

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

4. Long-term Debt

Long-term debt at September 30, 2012 and 2011, is shown below:

	<u>2012</u>	<u>2011</u>
Revenue bonds:		
Water Revenue Refunding Bonds, Series 1999, due annually to July 1, 2014, interest from 3.55 percent to 4.85 percent, secured by Water System revenue. The bonds were refinanced during the year ended September 30, 2012.	\$ -	\$ 1,095,000
Water Revenue Refunding Bonds, Series 2012, due annually to July 2, 2027, interest from 0.4 percent to 3.1 percent, secured by Water System revenue.	<u>3,725,000</u>	<u>-</u>
Total revenue bonds	<u>3,725,000</u>	<u>1,095,000</u>
Less current maturities	<u>220,000</u>	<u>350,000</u>
Noncurrent portion	<u>\$ 3,505,000</u>	<u>\$ 745,000</u>

Long-term debt activity for 2012 and 2011 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>
2012	<u>\$ 1,095,000</u>	<u>\$3,725,000</u>	<u>\$(1,095,000)</u>	<u>\$3,725,000</u>	<u>\$ 220,000</u>
2011	<u>\$ 1,430,000</u>	<u>\$ -</u>	<u>\$ (335,000)</u>	<u>\$1,095,000</u>	<u>\$ 350,000</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012 and 2011

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

4. Long-term Debt, continued

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>
2013	\$ 220,000	\$ 69,571	\$ 289,571
2014	225,000	67,737	292,737
2015	225,000	66,500	291,500
2016	230,000	65,038	295,038
2017	230,000	63,082	293,082
2018-2022	1,225,000	266,013	1,491,013
2023-2027	<u>1,370,000</u>	<u>122,477</u>	<u>1,492,477</u>
	<u>\$ 3,725,000</u>	<u>\$ 720,418</u>	<u>\$ 4,445,418</u>

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, 2012 and 2011, 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 2, 2017, are subject to redemption at the option of the City prior to maturity at any time after June 26, 2017, 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 \$83,718 and \$54,683 for 2012 and 2011, 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 \$92,895 and \$83,100 for the years ended September 30, 2012 and 2011, respectively.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012 and 2011

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 \$36,564 and \$36,564, respectively, for the year ended September 30, 2012, and \$35,016 and \$35,016, respectively, for the year ended September 30, 2011.

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 \$40,000 and \$37,000 for the years ended September 30, 2012 and 2011.

3. Subsequent Events

Management has evaluated subsequent events through January 18, 2013, 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>2012</u>	<u>2011</u>
Average number of consumers billed during the year	15,899	15,765
Gallons of Water (in thousands)		
Pumped	5,452,496	4,526,177
Less:		
Used at plant	274	131
Turbine cooling water	912,195	711,966
Net water for sale	4,540,027	3,814,080
Sold (in thousands)	4,304,337	3,744,687
Unaccounted for (in thousands)	235,690	69,393
Percent of net water for sale unaccounted for	5.19%	1.82%



**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, 2012 and 2011, and have issued our report thereon dated January 18, 2013. 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

Management of the City of Grand Island, Nebraska, Water Department is responsible for establishing and maintaining effective 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.

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Fax 308-381-4824
Email: cpa@gicpas.com

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 18, 2013.

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.

Singquist, Mathyholm,
Galloway & Luch, P.C.

Grand Island, Nebraska
January 18, 2013