

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

FINANCIAL STATEMENTS

September 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Department, City of Grand Island, Nebraska, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, as shown on pages 9-21.

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.

Auditors' Responsibility

Our responsibility is to express opinions 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 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 auditors' 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.

SHAREHOLDERS

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion

As discussed in Note A, the financial statements of the Water Department, City of Grand Island, Nebraska, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and major fund of the City that is attributable to the transactions of the Water Department. Accounting principles generally accepted in the United States of America require that the City of Grand Island, Nebraska's financial statements present the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grand Island, Nebraska.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the City of Grand Island, Nebraska, as of September 30, 2013 and 2012, or the changes in financial position or cash flows thereof for the years then ended.

Basis for Qualified Opinion

Management of the Water Department, City of Grand Island, Nebraska, 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.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Department, City of Grand Island, Nebraska, as of September 30, 2013 and 2012, and the 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Department, City of Grand Island, Nebraska's financial

statements. The operating statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The operating statistics have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2014, on our consideration of the Water Department, City of Grand Island, Nebraska'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Department, City of Grand Island, Nebraska's internal control over financial reporting and compliance.

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

Grand Island, Nebraska
January 23, 2014

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

STATEMENTS OF NET POSITION

September 30,

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 679,145	\$ 415,972
Investments	4,144,932	2,737,801
Receivables:		
Accounts, net of allowance for doubtful accounts of \$27,687 at September 30, 2013, and \$25,475 at September 30, 2012	620,814	864,454
Unbilled revenue	288,223	299,452
Interest	22,214	9,082
Special assessments	355,730	53,018
Inventory	285,498	332,661
Prepaid expense	13,299	12,895
Total current assets	6,409,855	4,725,335
Noncurrent assets:		
Restricted cash and cash equivalents	298,184	412,319
Restricted investments	302,904	300,500
Unamortized bond costs	-	50,839
Capital assets:		
Construction in progress	518,559	7,332,221
Distribution and collection systems	63,282,919	53,012,679
Buildings and equipment	3,278,061	3,255,768
Less accumulated depreciation	(13,574,022)	(12,784,034)
Net capital assets	53,505,517	50,816,634
Total noncurrent assets	54,106,605	51,580,292
Total assets	60,516,460	56,305,627
LIABILITIES		
Current liabilities:		
Accounts payable	189,394	1,068,537
Accrued expenses	294,406	274,172
Current portion of long-term obligations	225,000	220,000
Total current liabilities	708,800	1,562,709
Noncurrent liabilities:		
Compensated absences, noncurrent	44,028	43,041
Noncurrent portion of long-term obligations	3,280,000	3,505,000
Total liabilities	4,032,828	5,110,750
NET POSITION		
Net investment in capital assets	50,000,517	47,142,473
Restricted for:		
Debt service	601,088	712,819
Unrestricted	5,882,027	3,339,585
Total net position	\$ 56,483,632	\$ 51,194,877

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended September 30,

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sale of water:		
Consumers	\$ 5,090,134	\$ 5,079,025
Municipal and interdepartmental	105,819	96,285
Total sales	5,195,953	5,175,310
Tap fees	2,848,043	1,795,043
Other revenue	249,582	190,369
Total operating revenues	8,293,578	7,160,722
Operating expenses:		
Production	1,627,519	1,259,225
Operation	916,759	890,135
Consumer accounting and collection	449,423	448,460
Employee benefits and payroll	178,887	167,984
General office expense	5,816	6,863
Special services	102,964	102,950
Insurance	12,895	12,190
Miscellaneous	231,030	203,528
Depreciation	810,426	663,944
Amortization	-	4,884
Total operating expenses	4,335,719	3,760,163
Operating income	3,957,859	3,400,559
Nonoperating revenues (expenses):		
Interest income	23,300	20,528
Gain on sale of assets	4,965	1,615
Contribution in aid of construction	1,522,028	1,058,847
Payments in lieu of taxes	(100,161)	(83,718)
Interest expense	(68,397)	(56,416)
Total nonoperating revenues (expenses)	1,381,735	940,856
Change in net position	5,339,594	4,341,415
Net position, beginning of year		
As previously reported	51,194,877	46,853,462
Restatement	(50,839)	-
As restated	51,144,038	46,853,462
Net position, end of year	\$ 56,483,632	\$ 51,194,877

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 8,548,447	\$ 6,627,601
Cash paid to suppliers for goods and services	(2,815,055)	(2,429,087)
Cash paid to employees for services	(619,861)	(606,441)
Net cash provided by operating activities	<u>5,113,531</u>	<u>3,592,073</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments in lieu of taxes	(83,359)	(54,683)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(3,200,109)	(6,844,939)
Proceeds on sale of capital assets	7,912	5,382
Proceeds from the issuance of bonds payable	-	3,725,000
Payment of bond fees	-	(52,150)
Principal payments on long-term debt	(220,000)	(1,095,000)
Interest paid	(69,570)	(51,320)
Net cash used in capital and related financing activities	<u>(3,481,767)</u>	<u>(4,313,027)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments redeemed	-	412,219
Investments purchased	(1,409,535)	(518,031)
Interest received	10,168	20,479
Net cash used by investing activities	<u>(1,399,367)</u>	<u>(85,333)</u>
Net increase (decrease) in cash and cash equivalents	149,038	(860,970)
Cash and cash equivalents - beginning of year	<u>828,291</u>	<u>1,689,261</u>
Cash and cash equivalents - end of year	<u><u>\$ 977,329</u></u>	<u><u>\$ 828,291</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 679,145	\$ 415,972
Restricted cash and cash equivalents	298,184	412,319
Total cash and cash equivalents	<u><u>\$ 977,329</u></u>	<u><u>\$ 828,291</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>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,957,859	\$ 3,400,559
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	810,426	663,944
Amortization	-	4,884
Change in assets and liabilities:		
Accounts receivable	254,869	(533,121)
Inventories	47,163	(54,383)
Prepaid expenses	(404)	(736)
Accounts payable and accrued expenses	43,618	110,926
	<u>\$ 5,113,531</u>	<u>\$ 3,592,073</u>
 Supplemental cash flow information:		
Acquisition of capital assets through developers' aid of construction	<u>\$ 1,522,028</u>	<u>\$ 1,058,847</u>
Accounts payable incurred for capital asset purchases	<u>\$ -</u>	<u>\$ 917,168</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, 2013 and 2012

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.

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, 2013 and 2012, 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. 61, and has addressed all potential component units (traditionally separate reporting entities) for which the Department may be financially accountable, and, as such, should be included within the Department's financial statements. The Department (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Department. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

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, 2013 and 2012

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 position (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).

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

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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 \$4,144,932 and \$2,737,801 of investments and \$977,329 and \$828,291 of cash and cash equivalents at September 30, 2013 and 2012, respectively.

Investments and Investment Income

Investments in non-negotiable 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, 2013 and 2012

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 and a \$225,000 uranium removal system reserve.

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 1.31 percent in 2013 and 1.19 percent in 2012.

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>2013</u>	<u>2012</u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>68,397</u>	<u>56,416</u>
Total interest incurred	<u>\$ 68,397</u>	<u>\$ 56,416</u>

Unamortized Bond Discount

Bond discount fees for the Department were deferred and amortized over the life of the bonds using the “bonds outstanding” method through September 30, 2012. Effective October 1, 2012, the Department adopted GASB 65, requiring such costs to be expensed as period costs. Net position as of September 30, 2012 was restated \$50,839 to write off the unamortized bond discounts.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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.

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, 2013	\$ 124,753	\$ 6,281	\$ (3,192)	\$ 127,842	\$ 83,814
September 30, 2012	\$ 119,711	\$ 14,205	\$ (9,163)	\$ 124,753	\$ 81,712

Long-term Debt

The long-term debt consists of bonds payable.

Net Position Classifications

Net Position is classified into three components:

- a. Net investment in capital assets – 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 position – Consists of net position 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 position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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 demand deposits are insured up to \$250,000 and certificates of deposit/savings accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). 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, 2013 and 2012

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 Mayor and 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, 2013 and 2012.

The Department held certificates of deposit at September 30, 2013 and 2012, with a stated value of \$302,904 and \$300,500, respectively. At September 30, 2013 and 2012, 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, 2013 and 2012

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, 2013 and 2012, are included in the statement of net assets as follows:

	<u>2013</u>	<u>2012</u>
Equity in pooled cash	\$ 679,145	\$ 415,972
Equity in pooled investments	4,144,932	2,737,801
Equity in pooled cash – restricted	298,184	412,319
Certificates of deposit – restricted	<u>302,904</u>	<u>300,500</u>
	<u>\$ 5,425,165</u>	<u>\$ 3,866,592</u>

2. Restricted Assets

The restricted assets as of September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Restricted cash and cash equivalents	\$ 298,184	\$ 412,319
Restricted investments	<u>302,904</u>	<u>300,500</u>
	<u>\$ 601,088</u>	<u>\$ 712,819</u>

The restricted cash at September 30, 2013 and 2012 consists of \$0 and \$111,951, respectively, of bond proceeds restricted for the water construction project and \$225,000 restricted at both September 30, 2013 and 2012, for the Uranium removal system. The balance of the restricted cash and cash equivalents at September 30, 2013 and 2012, of \$73,184 and \$75,368, 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, 2013 and 2012

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

3. Capital Assets

The major classes of property, plant, and equipment at September 30, 2013 and 2012, are shown below:

	2013				
	Beginning Balance	Additions	Adjustments and Retirements	Reclass	Ending Balance
Construction work-in-progress	\$ 7,332,221	\$ 487,809	\$ -	\$(7,301,471)	\$ 518,559
Source of supply plant	6,564,752	78,545	-	-	6,643,297
Pumping plant	1,017,096	-	-	-	1,017,096
Water treatment plant	93,156	2,890,223	-	-	2,983,379
Transmission and distribution plant	45,337,676	-	-	7,301,471	52,639,147
General plant	3,255,767	45,679	(23,385)	-	3,278,061
Total property, plant, and equipment	72,082,301	3,502,256	(23,385)	-	67,079,539
Less accumulated depreciation	(12,784,034)	(810,426)	20,438	-	(13,574,022)
Net property, plant, and equipment	<u>\$ 59,298,267</u>	<u>\$ 2,691,830</u>	<u>\$ (2,947)</u>	<u>\$ -</u>	<u>\$ 53,505,517</u>
	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	3,230,954	50,092	(25,279)	-	3,255,767
Total property, plant, and equipment	55,119,035	8,506,912	(25,279)	-	63,600,668
Less accumulated depreciation	(12,141,603)	(663,944)	21,513	-	(12,784,034)
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>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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

4. Long-term Debt

Long-term debt at September 30, 2013 and 2012, is shown below:

	<u>2013</u>	<u>2012</u>
Revenue bonds:		
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.	\$ 3,505,000	\$ 3,725,000
Less current maturities	<u>225,000</u>	<u>220,000</u>
Noncurrent portion	<u>\$ 3,280,000</u>	<u>\$ 3,505,000</u>

Long-term debt activity for 2013 and 2012 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>
2013	<u>\$ 3,725,000</u>	<u>\$ -</u>	<u>\$ (220,000)</u>	<u>\$3,505,000</u>	<u>\$ 225,000</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>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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>
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	235,000	60,668	295,668
2019-2023	1,250,000	243,965	1,493,965
2024-2028	<u>1,110,000</u>	<u>83,858</u>	<u>1,193,858</u>
	<u>\$ 3,505,000</u>	<u>\$ 650,848</u>	<u>\$ 4,155,848</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, 2013 and 2012, 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 \$100,161 and \$83,718 for 2013 and 2012, 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 \$92,919 and \$92,895 for the years ended September 30, 2013 and 2012, respectively.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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 \$37,071 and \$37,071, respectively, for the year ended September 30, 2013, and \$36,564 and \$36,564, respectively, for the year ended September 30, 2012.

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 \$41,000 and \$40,000 for the years ended September 30, 2013 and 2012.

3. Subsequent Events

Management has evaluated subsequent events through January 23, 2014, the date on which the financial statements were available for issue.

OTHER INFORMATION

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

**OPERATING STATISTICS
(Unaudited)**

For the years ended September 30,

	<u>2013</u>	<u>2012</u>
Average number of consumers billed during the year	16,082	15,899
Gallons of Water (in thousands)		
Pumped	4,778,068	5,452,496
Less:		
Used at plant	183	274
Turbine cooling water	808,711	912,195
	3,969,174	4,540,027
Net water for sale	3,969,174	4,540,027
Sold (in thousands)	3,878,185	4,304,337
Unaccounted for (in thousands)	90,989	235,690
Percent of net water for sale unaccounted for	2.29%	5.19%



**INDEPENDENT AUDITORS' 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, 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, the financial statements of the Water Department, City of Grand Island, Nebraska, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated January 23, 2014. That report expressed a qualified opinion on the financial statements of the Department due to the exclusion of the Management's Discussion and Analysis, required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Department, City of Grand Island, Nebraska'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*.

Purpose of this Report

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

*Amquist, Malthalm,
Galloway & Lath, P.C.*

Grand Island, Nebraska
January 23, 2014