

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

**FINANCIAL STATEMENTS**

**September 30, 2017 and 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Electric Department, City of Grand Island, Nebraska, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

#### SHAREHOLDERS

Robert D. Almquist  
Phillip D. Maltzahn  
Terry T. Galloway  
Marcy J. Luth  
Heidi A. Ashby  
Christine R. Shenk  
Michael E. Hoback  
Joseph P. Stump  
Kyle R. Overturf

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

### **Basis for Qualified Opinion**

Management of the Electric 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 consider 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 Electric Department, City of Grand Island, Nebraska, as of September 30, 2017 and 2016, 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.

### **Emphasis of Matter**

As discussed in Note A, the financial statements present only the Electric Department of the City of Grand Island, Nebraska, and do not purport to, and do not present fairly the financial position of the City of Grand Island, Nebraska, as of September 30, 2017 and 2016, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Electric 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 25, 2018, on our consideration of the Electric 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 solely 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 effectiveness of the Electric Department, City of Grand Island, Nebraska's 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 Electric Department, City of Grand Island, Nebraska's internal control over financial reporting and compliance.

*Amquist, Malthalm,  
Goldway & Luth, P.C.*

Grand Island, Nebraska  
January 25, 2018

**CITY OF GRAND ISLAND, NEBRASKA**  
**ELECTRIC DEPARTMENT**  
**STATEMENTS OF NET POSITION**  
**September 30,**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,956,289	\$ 9,602,119
Investments	34,279,422	32,324,810
Receivables:		
Accounts, net of allowance for doubtful accounts of \$515,720 at September 30, 2017, and \$442,716 at September 30, 2016	5,523,236	5,534,943
Unbilled revenue	3,611,447	3,382,662
Interest	37,621	37,985
Inventory	10,076,145	9,344,187
Prepaid expenses	396,286	422,340
<b>Total current assets</b>	<u>60,880,446</u>	<u>60,649,046</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,716,128	356,102
Restricted investments	5,938,446	5,922,088
Deferred charges	152,339	380,848
Capital assets:		
Construction in progress	5,979,039	4,026,514
Land and land improvements	6,323,816	6,300,192
Distribution and collection systems	337,467,752	334,052,958
Buildings and equipment	41,580,148	39,572,745
Less accumulated depreciation	(237,097,946)	(225,448,414)
Net capital assets	<u>154,252,809</u>	<u>158,503,995</u>
<b>Total noncurrent assets</b>	<u>162,059,722</u>	<u>165,163,033</u>
<b>Total assets</b>	<u>222,940,168</u>	<u>225,812,079</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	3,436,670	2,564,946
Accrued expenses	1,176,032	1,112,573
Compensated absences - current	910,755	898,101
Accrual for payments in lieu of taxes	639,461	675,217
Current portion of long-term obligations	3,035,000	2,975,000
<b>Total current liabilities</b>	<u>9,197,918</u>	<u>8,225,837</u>
Noncurrent liabilities:		
Compensated absences - noncurrent	487,379	484,051
Closure/post-closure liability	872,651	181,078
Noncurrent portion of long-term obligations	37,770,000	40,805,000
Unamortized bond premiums	2,730,273	3,166,436
<b>Total liabilities</b>	<u>41,860,303</u>	<u>44,636,565</u>
<b>Total liabilities</b>	<u>51,058,221</u>	<u>52,862,402</u>
<b>NET POSITION</b>		
Net investment in capital assets	110,869,875	111,938,407
Restricted for:		
Debt service	5,938,446	5,922,088
Closure/post-closure costs	843,477	175,024
Unrestricted	54,230,149	54,914,158
<b>Total net position</b>	<u>\$ 171,881,947</u>	<u>\$ 172,949,677</u>

See notes to financial statements.

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

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

**For the years ended September 30,**

	<u>2017</u>	<u>2016</u>
<b>Operating revenues:</b>		
Electric energy sales:		
Residential	\$ 20,568,115	\$ 20,070,473
Commercial and industrial	42,159,145	40,736,134
Municipal and interdepartmental	1,801,327	1,739,256
Wholesale	18,946,068	2,769,498
Total sales	83,474,655	65,315,361
Other revenue	616,198	1,025,855
Total operating revenues	84,090,853	66,341,216
<b>Operating expenses:</b>		
Cost of power	54,439,616	36,386,482
Operation of system	2,835,164	2,515,932
Maintenance of system	2,665,405	2,678,254
Consumer accounting and collection	1,498,600	1,498,808
Employee benefits and payroll	1,262,516	1,188,106
General office salaries and expense	515,118	423,861
Special services	1,229,286	1,151,776
Insurance	452,884	560,188
Miscellaneous	109,859	172,028
Depreciation	12,603,461	11,385,645
Total operating expenses	77,611,909	57,961,080
Operating income	6,478,944	8,380,136
<b>Nonoperating revenues (expenses):</b>		
Investment income	341,352	405,413
Loss on disposal of capital assets	(86,576)	(222,647)
Allocated debt on participation power purchases	(5,775,493)	(5,795,172)
Payments in lieu of taxes	(639,461)	(675,217)
Interest expense	(1,822,659)	(1,880,397)
Bond premium amortization	436,163	451,059
Total nonoperating revenues (expenses)	(7,546,674)	(7,716,961)
<b>Change in net position</b>	(1,067,730)	663,175
Net position, beginning of year	172,949,677	172,286,502
Net position, end of year	\$ 171,881,947	\$ 172,949,677

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

**For the years ended September 30,**

	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 83,873,775	\$ 66,243,471
Cash paid to suppliers for goods and services	(53,751,494)	(35,969,384)
Cash paid to employees for services	(11,003,677)	(10,517,414)
Net cash provided by operating activities	<u>19,118,604</u>	<u>19,756,673</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments in lieu of taxes	(675,217)	(718,938)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of property and equipment	(10,143,787)	(10,361,628)
Proceeds on sale of capital assets	1,704,935	276,280
Decrease in deferred charges	228,509	268,238
Increase in fly ash liability	691,573	294
Payment of allocated debt on participation power purchase	(5,775,493)	(5,795,172)
Principal payments on long-term debt	(2,975,000)	(2,915,000)
Interest paid	(1,830,674)	(1,887,501)
Net cash used in capital and related financing activities	<u>(18,099,937)</u>	<u>(20,414,489)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments redeemed	9,275,243	17,806,951
Investments purchased	(11,246,213)	(14,875,937)
Interest received	341,716	396,872
Net cash provided (used) by investing activities	<u>(1,629,254)</u>	<u>3,327,886</u>
Net increase (decrease) in cash and cash equivalents	(1,285,804)	1,951,132
Cash and cash equivalents - beginning of year	<u>9,958,221</u>	<u>8,007,089</u>
Cash and cash equivalents - end of year	<u><u>\$ 8,672,417</u></u>	<u><u>\$ 9,958,221</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 6,956,289	\$ 9,602,119
Restricted cash and cash equivalents	1,716,128	356,102
Total cash and cash equivalents	<u><u>\$ 8,672,417</u></u>	<u><u>\$ 9,958,221</u></u>

See notes to financial statements.



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

**STATEMENTS OF CASH FLOWS, Continued**

**For the years ended September 30,**

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 6,478,944	\$ 8,380,136
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,603,461	11,385,645
Change in assets and liabilities:		
Accounts receivable	(217,078)	(90,987)
Inventories	(731,958)	547,433
Prepaid expenses	26,054	66,205
Accounts payable and accrued expenses	959,181	(531,759)
	<hr/>	<hr/>
Net cash provided by operating activities	<u>\$ 19,118,604</u>	<u>\$ 19,756,673</u>

See notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

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

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2017 and 2016**

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

The financial statements of the City of Grand Island, Nebraska, Electric 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, 2017 and 2016, 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, Electric 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 Federal Energy Regulatory Commission 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  
ELECTRIC DEPARTMENT**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**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.

Under the provisions of Statement of Financial Accounting Codification Standards regarding *Accounting for the Effects of Certain Types of Regulation*, the Department prescribes rate making recovery for certain transactions. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**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 \$14,764,340 and \$15,932,171 of investments and \$8,657,418 and \$9,943,221 of cash and cash equivalents at September 30, 2017 and 2016, respectively.

**Investments and Investment Income**

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in non-negotiable certificates of deposit are carried at cost.

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

**Receivables**

Billings for the electric revenues 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.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

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

**Inventories**

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

**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 the fly ash liability.

**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 3.23 percent in 2017 and 2.88 percent in 2016.

Costs related to studies expected to result in construction and/or acquisition of additional utility plants 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>2017</b></u>	<u><b>2016</b></u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>1,822,659</u>	<u>1,880,397</u>
Total interest incurred	<u>\$ 1,822,659</u>	<u>\$ 1,880,397</u>

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

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

**Unamortized Bond Premiums**

Bond premiums for the Department are deferred and accreted over the life of the bonds using the effective interest method. For the years ended September 30, 2017 and 2016, premium amortization of \$436,163 and \$451,059 on the Series 2013 and 2012 Electric bonds is included in other income.

**Deferred Charges**

Deferred charges incurred consist of various plant maintenance costs that are being amortized over the life of the scheduled maintenance repair life. In accordance with GASB Codification Standards, the maintenance costs which would be recognized during the current period are deferred and not included in the determination of net income until such costs are recoverable.

**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:

	<b><u>Beginning</u></b>			<b><u>Ending</u></b>	<b><u>Due Within</u></b>
	<b><u>Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Balance</u></b>	<b><u>One Year</u></b>
September 30, 2017	\$ 1,382,152	\$ 203,714	\$ (187,732)	\$ 1,398,134	\$ 910,755
September 30, 2016	\$ 1,374,475	\$ 202,231	\$ (194,554)	\$ 1,382,152	\$ 898,101

**Long-term Debt**

The long-term debt consists of bonds payable.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

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

**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 do not meet the definition of “restricted” or “net investment in capital assets.”

**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.



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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

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

**Allocated Debt on Participation Power Purchases**

Portions of the monthly bills the Department pays for participation power from OPPD and PPGA are the Department's allocated debt on the NC2 and PPGA Projects. Allocated debt of \$5,775,493 and \$5,795,172, respectively, are shown as nonoperating expenses for the years ended September 30, 2017 and 2016.

**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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

**3. Budgetary Data**

An appropriated budget is adopted each fiscal period for the Department on the cash basis, which is consistent with the 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, 2017 and 2016.

The Department held certificates of deposit at September 30, 2017 and 2016, with a stated value of \$25,453,528 and \$22,299,727, respectively. At September 30, 2017 and 2016, the Department’s deposits were not exposed to custodial credit risk.

**Summary of Carrying Values**

The carrying values of pooled cash and deposits at September 30, 2017 and 2016, are included in the statement of net position as follows:

	<u><b>2017</b></u>	<u><b>2016</b></u>
Petty cash	\$ 15,000	\$ 15,000
Equity in pooled cash	6,941,289	9,602,119
Equity in pooled investments	14,764,340	15,932,171
Equity in pooled cash – restricted	<u>1,716,128</u>	<u>356,102</u>
	<u>\$ 23,436,757</u>	<u>\$ 25,905,392</u>

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

**2. Investments**

The Department is authorized by statute to invest in securities based upon the prudent person investment criteria. The Department follows a policy of investing in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and bank certificates of deposit.

At September 30, 2017 and 2016, the Department had the following investments and maturities:

	<b>Fair Value</b>	<b>Maturities in Years</b>			<b>More than 10</b>
		<b>Less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	
<b><u>2017</u></b>					
Certificates of deposit	<u>\$25,453,528</u>	<u>\$17,436,576</u>	<u>\$ 8,016,952</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>2016</u></b>					
Certificates of deposit	<u>\$22,299,727</u>	<u>\$10,962,330</u>	<u>\$10,847,397</u>	<u>\$ 490,000</u>	<u>\$ -</u>

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the Department’s investment policy requires that market conditions and investment securities be analyzed daily to determine the maximum yield to be obtained and to minimize the impact of rising interest rates.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Excluding investments restricted for debt service, the Department limits its investments to certificates of deposit, money market funds, and other securities backed by U.S. Government obligations, which minimizes credit risk associated with the Department’s investment portfolio.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Department’s investments at September 30, 2017 and 2016, are held by the counterparties in other than the Department’s name.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

**2. Investments, continued**

*Concentration of Credit Risk.* The Department’s investment policy places no limit on the amount that may be invested in any one issuer. The Department’s investments consisted of the following at September 30, 2017 and 2016:

<u>Financial Institution</u>	<u>2017</u>	<u>2016</u>
Cornerstone Bank	\$ 7,631,825	\$ 6,075,869
Five Points Bank	-	2,027,656
First National Bank	3,538,238	2,005,847
Exchange Bank	4,307,019	5,283,268
Great Western Bank	4,038,000	-
Wells Fargo Bank	<u>5,938,446</u>	<u>6,907,087</u>
	<u>\$ 25,453,528</u>	<u>\$ 22,299,727</u>

**3. Restricted Assets**

The restricted assets as of September 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Restricted cash and cash equivalents	\$ 1,716,128	\$ 356,102
Restricted investments	<u>5,938,446</u>	<u>5,922,088</u>
	<u>\$ 7,654,574</u>	<u>\$ 6,278,190</u>

Restricted cash and cash equivalents of \$1,716,128 and \$356,102 for the years ended September 30, 2017 and 2016, respectively, are restricted for fly ash disposal closure/post-closure care. For both years, the restricted investments represent the debt service reserve for the electric bonds.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

**4. Capital Assets**

The major classes of property, plant, and equipment at September 30, 2017 and 2016, are shown below:

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Adjustments and Retirements</b>	<b>Reclass</b>	<b>Ending Balance</b>
Construction work-in-progress	\$ 4,026,514	\$ 7,194,015	\$ -	\$ (5,241,490)	\$ 5,979,039
Land and land rights	3,879,461	23,624	-	-	3,903,085
Production plant	232,901,717	1,124,656	-	513,693	234,540,066
Transmission plant	26,484,031	-	(90,393)	612,214	27,005,852
Distribution plant	101,151,241	-	(1,600,331)	3,376,776	102,927,686
General plant	13,088,714	1,801,491	(1,054,716)	738,807	14,574,296
Plant acquisition adjustment	2,166,508	-	-	-	2,166,508
Non-utility property - land	254,223	-	-	-	254,223
Total property, plant, and equipment	383,952,409	10,143,786	(2,745,440)	-	391,350,755
Less accumulated depreciation	(225,448,414)	(12,603,461)	953,929	-	(237,097,946)
Net property, plant, and equipment	<u>\$ 158,503,995</u>	<u>\$ (2,459,675)</u>	<u>\$(1,791,511)</u>	<u>\$ -</u>	<u>\$ 154,252,809</u>
	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Adjustments and Retirements</b>	<b>Reclass</b>	<b>Ending Balance</b>
Construction work-in-progress	\$ 54,229,752	\$ 8,239,570	\$ -	\$(58,442,808)	\$ 4,026,514
Land and land rights	3,858,263	21,198	-	-	3,879,461
Production plant	199,088,555	-	(11,210,768)	45,023,930	232,901,717
Transmission plant	24,383,171	2,100,860	-	-	26,484,031
Distribution plant	90,033,021	-	(498,324)	11,616,544	101,151,241
General plant	11,707,548	-	(421,168)	1,802,334	13,088,714
Plant acquisition adjustment	2,166,508	-	-	-	2,166,508
Non-utility property - land	254,223	-	-	-	254,223
Total property, plant, and equipment	385,721,041	10,361,628	(12,130,260)	-	383,952,409
Less accumulated depreciation	(225,694,102)	(11,385,645)	11,631,333	-	(225,448,414)
Net property, plant, and equipment	<u>\$ 160,026,939</u>	<u>\$ (1,024,017)</u>	<u>\$ (498,927)</u>	<u>\$ -</u>	<u>\$ 158,503,995</u>

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

**5. Long-term Debt**

Long-term debt at September 30, 2017 and 2016, is shown below:

	<u>2017</u>	<u>2016</u>
Electric System Revenue Refunding Bonds, 2012 Series, due serially to August 15, 2022, interest from 0.2 percent to 4.0 percent, secured by the Electric System revenues.	\$ 9,080,000	\$ 10,755,000
Electric System Revenue Refunding Bonds, 2013 Series, due serially to September 15, 2035, interest from 0.5 percent to 5.375 percent, secured by the Electric System revenues.	<u>31,725,000</u>	<u>33,025,000</u>
Total long-term debt	40,805,000	43,780,000
Less current maturities	<u>3,035,000</u>	<u>2,975,000</u>
Noncurrent portion	<u>\$ 37,770,000</u>	<u>\$ 40,805,000</u>

Long-term debt activity for 2017 and 2016 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>
2017	<u>\$ 43,780,000</u>	<u>\$ -</u>	<u>\$ (2,975,000)</u>	<u>\$ 40,805,000</u>	<u>\$ 3,035,000</u>
2016	<u>\$ 46,695,000</u>	<u>\$ -</u>	<u>\$ (2,915,000)</u>	<u>\$ 43,780,000</u>	<u>\$ 2,975,000</u>

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

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

**5. 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>
2018	\$ 3,035,000	\$ 1,766,550	\$ 4,801,550
2019	3,110,000	1,693,450	4,803,450
2020	3,225,000	1,583,550	4,808,550
2021	3,345,000	1,454,550	4,799,550
2022	3,485,000	1,320,750	4,805,750
2023-2027	20,030,000	3,987,150	24,017,150
2028-2032	<u>4,575,000</u>	<u>228,750</u>	<u>4,803,750</u>
	<u>\$ 40,805,000</u>	<u>\$ 12,034,750</u>	<u>\$ 52,839,750</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, 2017 and 2016, are shown in Note C3. There are a number of other limitations, restrictions, and covenants contained in the indentures under which the Department’s revenue bonds were issued.

The 2012 bonds are not subject to optional redemption prior to maturity. The 2013 bonds are subject to optional redemption prior to maturity at any time on or after the tenth anniversary of the date of delivery, which will be November 26, 2023.

**6. 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 payments in lieu of taxes, amounting to \$639,461 and \$675,217 for 2017 and 2016, respectively, are set at five percent of the net operating revenues of the Department, excluding depreciation. 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 \$1,122,890 and \$1,089,354 for the years ended September 30, 2017 and 2016, respectively.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**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 \$655,381 and \$655,381, respectively, for the year ended September 30, 2017, and \$622,462 and \$622,462, respectively, for the year ended September 30, 2016.

**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 \$881,000 and \$946,000, respectively, for the years ended September 30, 2017 and 2016.



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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**NOTE D – OTHER NOTES, continued**

**3. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- *Cash, accounts receivable, and accounts payable* – The carrying amount approximates fair value because of the short maturity of these instruments.
- *Investments* – The fair values of investments are based on quoted market prices for those investments as shown in Note C2.
- *Long-term debt* – The Department’s long-term debt at September 30, 2017, had a principal balance of \$40,805,000 with interest at 2.0 percent to 5.0 percent due serially. The estimated fair value is not practical to determine.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**4. Power Supply**

The Department currently has generation capacity of approximately 181 MW from coal-fired and gas/oil-fired electric generating stations. One older gas-fired steam unit has been removed from the market lowering the generation capacity by 54 MW. The peak load of the Department during the fiscal year ended September 30, 2017, was approximately 162 MW in July 2017.

The Department is party to an agreement with the Department of Energy (DOE) pursuant to which the Department may purchase up to 9,168 KW of power to be transmitted through DOE and Nebraska Public Power District (NPPD) facilities. Such power is sold to the Department at standard DOE wholesale firm power service rates. The agreement expires on December 31, 2050.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**NOTE D – OTHER NOTES, continued**

**5. Commitments**

**Purchased Power Agreements**

The Department entered into a participation power agreement with Omaha Public Power District (OPPD) on January 15, 2004, to obtain approximately 33 MW of energy after the new OPPD Nebraska City Unit #2 is constructed and operational. The project was completed in May 2009 and was financed through a bond issuance by OPPD. The Department has also entered into an agreement with the Public Power Generating Agency to obtain approximately 15 MW of energy. This project was completed in May 2011. During the year ended September 30, 2016, the Department entered into a 25-year agreement with Invenergy for the entire 35.8 MW output of the Prairie Breeze III windfarm near Elgin, Nebraska. This facility came online in March 2016. Subsequent agreements with the City of Nebraska City and City of Neligh for 7 MW and 2 MW, respectively, have since been signed. During the year ended September 30, 2017, the Department entered into a 25 year agreement with Sempra for the entire 50 MW output of Prairie Hills windfarm to be located in Custer County, Nebraska. This facility is due to be online by the end of 2019. During the year ended September 30, 2017, the Department also entered into a 25 year agreement with Sol Systems for the entire 1 MW output of a new solar installation to be located near a Department substation. This facility is due to be online by the end of 2018.

The Department entered into a coal supply agreement with Arch Coal Sales Company, Inc., on April 21, 2016, to obtain at least 150,000 tons of coal from January 1, 2017, to December 31, 2017. On August 4, 2017, the Department also entered into an agreement with Cloud Peak Energy Resources, LLC to obtain at 300,000 tons of coal from January 1, 2018, to December 31, 2019. The Department received 263,423 tons from January 1, 2017, through September 30, 2017, fulfilling the contract for 2017 with Arch Coal Sales Company, Inc. As of September 30, 2017, the Department had remaining contractual obligations for the 300,000 tons under contract for calendar years 2018 through 2019.

**Regulatory Compliance**

In 1997, the Department entered into an agreement with the Nebraska Department of Environmental Quality to establish a closure/post-closure care account. The purpose of this account is to accumulate sufficient monies to fund all related costs of closure and post-closure of the fly ash disposal area at the Platte Generating Station. The calculated amount of the closure/post-closure liability was \$872,651 and \$181,078, respectively, for the years ended September 30, 2017 and 2016. The amount on deposit in the closure/post-closure care account was \$1,716,128 and \$356,102 at September 30, 2017 and 2016, respectively.

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**NOTE D – OTHER NOTES, continued**

**5. Commitments, continued**

**Regulatory Compliance, continued**

The Department's operations are subject to stringent federal, state, and local laws and regulations relating to improving and maintaining environmental quality. Current studies have determined that a substantial capital investment will be required to bring the Department into compliance with environmental regulations including mercury emissions. Environmental expenditures related to current operations are factored into the strategic planning process of the Department and are considered when determining future energy rates. Financing of these expenditures is expected to be through available cash reserves and bonded debt.

**Construction Commitments**

As of September 30, 2017, the Department had a contractual commitment with Altec Industries for a \$254,844 bucket truck expected to be delivered in December 2017. A \$189,754 contractual commitment with TEI Construction Services was in place for boiler condition assessment.

In 2017, the Department entered into a contract with Chief Construction Company for construction of a garage and warehouse. A total of \$125,537 remains to be paid on this contract. The Department also had remaining contractual commitments of \$27,973 with ABB, Inc. for the Burdick steam unit 3 DCS upgrade and \$70,124 with Huffman Engineering for the bottom ash conveyor system controls upgrade project.

**6. EPA Emissions Allowances**

As of September 30, 2017, the City had 13,516 Acid Rain SO<sub>2</sub> Emissions Allowances. The EPA has granted these allowances, which can be used to offset plant emissions. The allowances can be bought and sold. If each allowance were sold for \$0.50 (the September 30, 2017, market value), the City would recognize revenue of \$6,758. The City will receive an additional 2,932 credits per year until 2047.

The Cross-State Air Pollution Rule was revived in October 2014 when the DC Circuit Court lifted its stay of the rule which the EPA has proposed starting in 2015. This rule created four new emissions trading programs, two annual SO<sub>2</sub>, an annual NO<sub>x</sub>, and a seasonal NO<sub>x</sub>. The annual programs start on January 1, 2015, while the seasonal NO<sub>x</sub> program begins on May 1, 2015. The City is subject only to the annual programs for both NO<sub>x</sub> and SO<sub>2</sub>. As of September 30, 2017, the City had 473 annual NO<sub>x</sub> credits and 3,055 Group 2 SO<sub>2</sub> allowances. The

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

**NOTES TO FINANCIAL STATEMENTS, Continued**

**September 30, 2017 and 2016**

**NOTE D – OTHER NOTES, continued**

**6. EPA Emissions Allowances, continued**

allowances can be bought and sold. If the credits and allowances were sold for their estimated market value of \$2.75 and \$3.25 per unit, respectively, the City would recognize revenue of \$11,230. The City will receive an additional 855 NO<sub>x</sub> and 2,224 Group 2 SO<sub>2</sub> credits in 2017 and 2018.

**7. Subsequent Events**

Management has evaluated subsequent events through January 25, 2018, the date on which the financial statements were available for issue.

## **OTHER INFORMATION**

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

**OPERATING STATISTICS  
(Unaudited)**

**For the years ended September 30,**

	<u><b>2017</b></u>	<u><b>2016</b></u>
Total net kilowatt hours generated	415,827,600	478,743,100
Additional kilowatt hours used at plant	8,218,906	5,148,551
Net kilowatt hours produced	<u>407,608,694</u>	<u>473,594,549</u>
Net scheduled/metered interchange	<u>347,871,004</u>	<u>283,122,703</u>
Total kilowatt hours available for sale	755,479,698	756,717,252
Kilowatt hours sold, as metered	<u>726,011,309</u>	<u>724,226,580</u>
Line loss	<u>29,468,389</u>	<u>32,490,672</u>
Line loss percentage	<u>3.90%</u>	<u>4.29%</u>
Monthly average number billed by class:		
Residential	21,744	21,443
Commercial	4,556	4,513
Industrial	97	97
Total	<u>26,397</u>	<u>26,053</u>

	<u><b>2017</b></u>		<u><b>2016</b></u>	
	<u><b>KWH</b></u>	<u><b>Revenue</b></u>	<u><b>KWH</b></u>	<u><b>Revenue</b></u>
Total KWH and revenue by class:				
Residential	212,461,836	\$ 20,872,250	212,815,820	\$ 20,325,556
Commercial	186,952,995	17,865,205	187,128,034	17,440,139
Industrial	<u>326,596,478</u>	<u>25,528,711</u>	<u>324,282,726</u>	<u>24,386,418</u>
Total	<u>726,011,309</u>	<u>\$ 64,266,166</u>	<u>724,226,580</u>	<u>\$ 62,152,113</u>
Average revenue per KWH sold		<u>\$ 0.0885</u>		<u>\$ 0.0858</u>



**INDEPENDENT AUDITOR'S 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  
Michael E. Hoback  
Joseph P. Stump  
Kyle R. Overturf

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 Electric Department, City of Grand Island, Nebraska, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated January 25, 2018. 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 Electric 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 Electric 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 & Luth, etc.

Grand Island, Nebraska  
January 25, 2018