

**City of Grand Island, Nebraska  
Water Department**

Independent Auditor's Report and Financial Statements

September 30, 2018



**City of Grand Island, Nebraska  
Water Department  
September 30, 2018**

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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 Water Department of the City of Grand Island, Nebraska (the Department), an enterprise fund of the City of Grand Island, Nebraska, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Department of the City of Grand Island, Nebraska, as of September 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior Year Audited by Other Auditors***

The 2017 financial statements were audited by other auditors, and their report thereon, dated January 25, 2018, expressed a qualified opinion because the Department did not present 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 as required by the Governmental Accounting Standard Board.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements 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, 2018, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The accompanying operating statistics as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***BKD, LLP***

Lincoln, Nebraska  
March 29, 2019

**City of Grand Island, Nebraska**  
**Water Department**  
**Statement of Net Position**  
**September 30, 2018**

**Assets**

Current Assets

Cash and cash equivalents	\$ 6,894,599
Receivables	
Accounts, net of allowance for doubtful accounts of \$45,267	566,852
Unbilled revenue	384,486
Interest	4,389
Special assessments	73,810
Due from other funds	20,233
Inventory	263,523
Prepaid expenses	<u>12,980</u>
Total current assets	<u>8,220,872</u>

Noncurrent Assets

Restricted cash and cash equivalents	416,575
Capital assets	
Construction in progress	3,928,234
Distribution and collection systems	75,313,639
Buildings and equipment	4,122,324
Less accumulated depreciation	<u>(18,484,841)</u>
Net capital assets	<u>64,879,356</u>
Total noncurrent assets	<u>65,295,931</u>
Total assets	<u><u>\$ 73,516,803</u></u>

**Liabilities**

## Current Liabilities

Accounts payable	\$ 146,903
Due to other funds	25,327
Accrued expenses	163,167
Compensated absences - current	31,347
Accrual for payments in lieu of taxes	66,442
Current portion of long-term obligations	<u>300,000</u>

Total current liabilities 733,186

## Noncurrent liabilities

Compensated absences - noncurrent	125,426
Noncurrent portion of long-term obligations	<u>6,840,000</u>

Total noncurrent liabilities 6,965,426

Total liabilities 7,698,612

## Net Position

Net investment in capital assets	57,599,059
Restricted for	
Debt service	191,575
Uranium removal	225,000
Unrestricted	<u>7,802,557</u>

Total net position 65,818,191

Total liabilities and net position \$ 73,516,803

**City of Grand Island, Nebraska**  
**Water Department**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended September 30, 2018**

<b>Operating Revenues</b>	
Sale of water:	
Consumers	\$ 5,926,926
Municipal and interdepartmental	<u>159,442</u>
Total sales	<u>6,086,368</u>
Tap fees	5,581
Other revenue	<u>253,558</u>
Total operating revenues	<u>6,345,507</u>
<b>Operating Expenses</b>	
Production	1,893,530
Operation	1,068,318
Consumer accounting and collection	441,051
Employee benefits and payroll	231,894
General office expense	7,933
Special services	111,192
Insurance	10,471
Miscellaneous	260,368
Depreciation	<u>1,111,349</u>
Total operating expenses	<u>5,136,106</u>
Operating income	<u>1,209,401</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	9,664
Interest expense	<u>(193,874)</u>
Total nonoperating expenses	<u>(184,210)</u>
<b>Transfer to City of Grand Island - Payments in Lieu of Taxes</b>	<u>(66,442)</u>
<b>Change in Net Position</b>	<u>958,749</u>
<b>Net Position, Beginning of Year</b>	<u>64,859,442</u>
<b>Net Position, End of Year</b>	<u><u>\$ 65,818,191</u></u>

**City of Grand Island, Nebraska**  
**Water Department**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2018**

<b>Cash Flows From Operating Activities</b>	
Cash received from customers	\$ 6,351,322
Cash paid to suppliers for goods and services	(3,848,557)
Cash paid to employees for services	<u>(197,484)</u>
Net cash provided by operating activities	<u>2,305,281</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Advances from other funds	27,607
Payments in lieu of taxes	<u>(149,962)</u>
Net cash used in noncapital financing activities	<u>(122,355)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchase of property and equipment	(4,444,099)
Collection of special assessments	27,281
Principal payments on long-term debt	(295,000)
Interest paid	<u>(201,855)</u>
Net cash used in capital and related financing activities	<u>(4,913,673)</u>
<b>Cash Flows From Investing Activities</b>	
Change in allocation of pooled investments	3,626,294
Sales and maturities of investments	313,112
Interest received	<u>16,124</u>
Net cash provided by investing activities	<u>3,955,530</u>
<b>Net Change in Cash and Cash Equivalents</b>	1,224,783
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>6,086,391</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 7,311,174</u></u>
<b>Composition of Cash and Cash Equivalents</b>	
Cash and cash equivalents	\$ 6,894,599
Restricted cash and cash equivalents	<u>416,575</u>
Total cash and cash equivalents	<u><u>\$ 7,311,174</u></u>

**City of Grand Island, Nebraska**  
**Water Department**  
**Statement of Cash Flows - Continued**  
**For the Year Ended September 30, 2018**

**Reconciliation of Operating Income to Net Cash Provided by**

**Operating Activities**

Operating income	\$ 1,209,401
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,111,349
Change in assets and liabilities	
Accounts receivable	5,815
Inventories	34,672
Prepaid expenses	(724)
Accounts payable and accrued expenses	<u>(55,232)</u>
Net cash provided by operating activities	<u>\$ 2,305,281</u>

**Supplemental Cash Flow Information**

Accounts payable incurred for capital asset purchases	<u>\$ 140,297</u>
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# City of Grand Island, Nebraska

## Water Department

### Notes to Financial Statements September 30, 2018

#### **Note 1: 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, 2018, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***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 has considered all potential component units for which the Department may be financially accountable, and at 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.

#### ***Measurement Focus and Basis of Accounting***

The Department utilizes the 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.

# City of Grand Island, Nebraska

## Water Department

### Notes to Financial Statements

September 30, 2018

#### Note 1: Summary of Significant Accounting Policies - Continued

##### ***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 restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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

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 \$6,894,599 of cash and cash equivalents at September 30, 2018.

##### ***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.

# City of Grand Island, Nebraska

## Water Department

### Notes to Financial Statements

September 30, 2018

#### Note 1: Summary of Significant Accounting Policies - Continued

##### ***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.

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

Restricted assets include cash and investments that are legally restricted as to their use. The restricted assets are related to \$191,575 in 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 estimated acquisition value at the date of contribution.

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.

# City of Grand Island, Nebraska Water Department

## Notes to Financial Statements September 30, 2018

### Note 1: Summary of Significant Accounting Policies - 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.

#### ***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 of 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.”

#### ***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.

# City of Grand Island, Nebraska Water Department

## Notes to Financial Statements September 30, 2018

### Note 2: Deposits and Investments

#### *Deposits*

State law requires collateralization of all deposits with federal depository insurance or with U.S. Treasury and U.S. agencies 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. 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.

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.

#### *Summary of Carrying Values*

The carrying values of pooled cash and deposits at September 30, 2018, are included in the statement of net position as follows:

Equity in pooled cash	\$	6,894,599
Restricted cash and cash equivalents		<u>416,575</u>
	\$	<u><u>7,311,174</u></u>

#### *Restricted Assets*

The restricted cash at September 30, 2018 consists of bond and interest sinking funds of \$191,575 and \$225,000 restricted for the uranium removal system.

# City of Grand Island, Nebraska Water Department

## Notes to Financial Statements September 30, 2018

### Note 3: Capital Assets

Capital assets activity for the year ended September 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets:					
Construction work-in-process	\$ 1,950,904	\$ 4,149,050	\$ -	\$ (2,171,720)	\$ 3,928,234
Source of supply plant	6,653,256	127,860	(4,677)	58,093	6,834,532
Pumping plant	1,194,106	-	-	-	1,194,106
Water treatment plant	3,029,035	-	-	-	3,029,035
Transmission and distribution plant	62,186,678	-	-	2,069,288	64,255,966
General plant	4,077,985	-	-	44,339	4,122,324
Total capital assets	<u>79,091,964</u>	<u>4,276,910</u>	<u>(4,677)</u>	<u>-</u>	<u>83,364,197</u>
Less: Accumulated depreciation	<u>(17,378,169)</u>	<u>(1,111,349)</u>	<u>4,677</u>	<u>-</u>	<u>(18,484,841)</u>
Total capital assets, net	<u>\$ 61,713,795</u>	<u>\$ 3,165,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,879,356</u>

### Note 4: Long-term Debt

Long-term debt consists of the following at September 30, 2018:

Water Revenue Refunding Bonds, Series 2017, due annually to March 15, 2037; interest from 2.0% to 3.5% secured by Water System revenue.	<u>\$ 7,140,000</u>
Total long-term debt	<u>7,140,000</u>
Less current maturities	<u>300,000</u>
Noncurrent portion	<u>\$ 6,840,000</u>

# City of Grand Island, Nebraska Water Department

## Notes to Financial Statements September 30, 2018

### Note 4: Long-term Debt - Continued

Long-term obligations activity for 2018 and 2017 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 7,435,000	\$ -	\$ (295,000)	\$ 7,140,000	\$ 300,000
Compensated absences	138,277	86,071	(67,575)	156,773	31,347
	<u>\$ 7,573,277</u>	<u>\$ 86,071</u>	<u>\$ (362,575)</u>	<u>\$ 7,296,773</u>	<u>\$ 331,347</u>

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

<u>Fiscal Year Ending September 30</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 300,000	\$ 195,905
2020	305,000	189,855
2021	310,000	183,705
2022	320,000	177,405
2023	325,000	170,955
2024 - 2028	1,735,000	742,596
2029 - 2033	1,995,000	485,050
2034 - 2038	1,850,000	127,681
	<u>\$ 7,140,000</u>	<u>\$ 2,273,152</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, 2018 are shown in Note 3 under Restricted Assets. 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 March 15, 2022 are subject to redemption at the option of the City prior to maturity at any time after April 10, 2022; in whole or in part, at par plus accrued interest to the date fixed for redemption.

# City of Grand Island, Nebraska

## Water Department

### Notes to Financial Statements September 30, 2018

#### **Note 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 \$66,442 for 2018, are set at 1% 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 \$99,267 for the year ended September 30, 2018.

#### **Note 6: 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 6% 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 participant's contributions. As of October 1, 1997, participants can elect to contribute an additional 4% 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 contribution occurs after five years of participation in the plan. The participant's and Department's contributions were \$53,621 and \$53,621, respectively, for the year ended September 30, 2018.

#### **Note 7: 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.

## **Other Information**

# City of Grand Island, Nebraska Water Department

## Operating Statistics For the Year Ended September 30, 2018 (Unaudited)

Average number of consumers billed during the year	16,904
Gallons of Water (in thousands)	
Pumped	4,574,089
Less	
Used at plant	245
Turbine cooling water	<u>693,365</u>
Net water for sale	3,880,479
Sold (in thousands)	<u>3,630,929</u>
Unaccounted for (in thousands)	<u><u>249,550</u></u>
Percent of net water for sale unaccounted for	<u><u>6.43%</u></u>