

**CITY OF GRAND ISLAND, NEBRASKA
ELECTRIC 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 Electric 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 9-25.

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.

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 Electric 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 Electric 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 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 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 Electric 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 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 23, 2014, 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 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 Electric Department, City of Grand Island, Nebraska's internal control over financial reporting and compliance.

Almgvist, Malthalm.
Galloway : Luth. P.C.

Grand Island, Nebraska
January 23, 2014

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

STATEMENTS OF NET POSITION

September 30,

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,008,435	\$ 2,412,178
Investments	31,359,825	31,229,938
Receivables:		
Accounts, net of allowance for doubtful accounts of \$343,843 at September 30, 2013, and \$347,345 at September 30, 2012	6,141,917	5,454,558
Unbilled revenue	2,766,486	2,387,719
Interest	16,549	28,128
Inventory	9,368,724	9,754,647
Prepaid expenses	429,997	416,945
Total current assets	52,091,933	51,684,113
Noncurrent assets:		
Restricted cash and cash equivalents	342,502	336,545
Restricted investments	2,235,048	2,236,335
Unamortized bond costs	-	252,225
Deferred charges	1,222,757	839,655
Prepaid transmission	942,589	2,175,599
Capital assets:		
Construction in progress	26,980,562	13,199,346
Land and land improvements	6,068,304	6,068,304
Distribution and collection systems	276,061,388	274,326,517
Buildings and equipment	28,168,302	27,748,808
Less accumulated depreciation	(205,892,068)	(196,203,205)
Net capital assets	131,386,488	125,139,770
Total noncurrent assets	136,129,384	130,980,129
Total assets	188,221,317	182,664,242
LIABILITIES		
Current liabilities:		
Accounts payable	4,281,711	2,485,397
Accrued expenses	727,103	672,638
Compensated absences - current	847,458	826,205
Accrual for payments in lieu of taxes	798,670	811,019
Current portion of long-term obligations	1,705,000	1,875,000
Total current liabilities	8,359,942	6,670,259
Noncurrent liabilities:		
Compensated absences - noncurrent	445,169	435,189
Closure/post-closure liability	175,601	172,547
Noncurrent portion of long-term obligations	14,230,000	15,935,000
Unamortized bond premiums	824,601	960,042
	15,675,371	17,502,778
Total liabilities	24,035,313	24,173,037
NET POSITION		
Net investment in capital assets	116,792,233	109,637,207
Restricted for:		
Debt service	2,235,048	2,236,335
Closure/post-closure costs	166,901	163,998
Unrestricted	44,991,822	46,453,665
Total net position	\$ 164,186,004	\$ 158,491,205

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>2013</u>	<u>2012</u>
Operating revenues:		
Electric energy sales:		
Residential	\$ 19,569,681	\$ 19,287,844
Commercial and industrial	39,841,758	38,775,121
Municipal and interdepartmental	1,741,281	1,828,136
Wholesale	4,345,827	1,288,128
Total sales	65,498,547	61,179,229
Other revenue	773,222	576,308
Total operating revenues	66,271,769	61,755,537
Operating expenses:		
Cost of power	34,639,189	30,232,339
Operation of system	1,722,429	1,774,133
Maintenance of system	2,470,049	2,247,237
Consumer accounting and collection	1,214,247	1,175,353
Employee benefits and payroll	1,135,396	1,091,355
General office salaries and expense	256,375	256,219
Special services	1,109,617	1,073,931
Insurance	513,017	554,598
Miscellaneous	96,148	100,817
Depreciation	10,012,351	9,905,761
Amortization	-	88,902
Total operating expenses	53,168,818	48,500,645
Operating income	13,102,951	13,254,892
Nonoperating revenues (expenses):		
Investment income	218,948	403,962
Gain on disposal of capital assets	28,939	20,570
Allocated debt on participation power purchases	(6,321,110)	(6,320,655)
Payments in lieu of taxes	(798,670)	(811,019)
Interest expense	(419,475)	(905,174)
Bond premium accretion	135,441	69,209
Total nonoperating revenues (expenses)	(7,155,927)	(7,543,107)
Change in net position	5,947,024	5,711,785
Net position, beginning of year		
As previously reported	158,491,205	152,779,420
Restatement	(252,225)	-
As restated	158,238,980	152,779,420
Net position, end of year	\$ 164,186,004	\$ 158,491,205

See notes to financial statements.

**CITY OF GRAND ISLAND, NEBRASKA
ELECTRIC 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	\$ 65,205,643	\$ 61,006,851
Cash paid to suppliers for goods and services	(31,877,340)	(27,406,355)
Cash paid to employees for services	(9,337,307)	(8,900,670)
Net cash provided by operating activities	<u>23,990,996</u>	<u>24,699,826</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments in lieu of taxes	(811,019)	(689,459)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(15,181,720)	(10,441,997)
Proceeds on sale of capital assets	498,601	841,614
Increase (decrease) in deferred charges	(383,102)	903,995
Increase in fly ash liability	3,054	3,549
Payment of allocated debt on participation power purchase	(6,321,110)	(6,320,655)
Proceeds from issuance of bonds payable	-	18,510,000
Premium received on the issuance of bonds	-	1,029,250
Payment of bond fees	-	(270,408)
Principal payments on long-term debt	(1,875,000)	(26,190,000)
Interest paid	(420,413)	(1,013,645)
Net cash used in capital and related financing activities	<u>(23,679,690)</u>	<u>(22,948,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments redeemed	12,820,124	24,273,923
Investments purchased	(12,948,724)	(29,324,239)
Interest received	230,527	448,143
Net cash provided (used) by investing activities	<u>101,927</u>	<u>(4,602,173)</u>
Net decrease in cash and cash equivalents	(397,786)	(3,540,103)
Cash and cash equivalents - beginning of year	<u>2,748,723</u>	<u>6,288,826</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,350,937</u></u>	<u><u>\$ 2,748,723</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 2,008,435	\$ 2,412,178
Restricted cash and cash equivalents	342,502	336,545
Total cash and cash equivalents	<u><u>\$ 2,350,937</u></u>	<u><u>\$ 2,748,723</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>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,102,951	\$ 13,254,892
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,012,351	9,905,761
Amortization	-	88,902
Change in assets and liabilities:		
Accounts receivable	(1,066,126)	(748,686)
Inventories	385,923	1,102,538
Prepaid expenses	(13,052)	(23,796)
Prepaid transmissions	1,233,010	1,100,642
Accounts payable and accrued expenses	335,939	19,573
	<u>\$ 23,990,996</u>	<u>\$ 24,699,826</u>
 Supplemental cash flow information:		
Accounts payable incurred for capital asset purchases	<u>\$ 1,547,011</u>	<u>\$ -</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, 2013 and 2012

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, 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, 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, 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 assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets 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, 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 \$14,256,600 and \$15,232,640 of investments and \$2,335,936 and \$2,733,723 of cash and cash equivalents at September 30, 2013 and 2012, 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.

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, 2013 and 2012

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 2013 and 3.23 percent in 2012.

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>2013</u>	<u>2012</u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>419,475</u>	<u>905,174</u>
Total interest incurred	<u>\$ 419,475</u>	<u>\$ 905,174</u>

**CITY OF GRAND ISLAND, NEBRASKA
ELECTRIC 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

Unamortized Bond Discounts and Premiums

Bond discount fees and premiums for the Department are deferred and amortized over the life of the bonds using the effective interest method through September 30, 2012. Effective October 1, 2012, the Department adopted GASB 65, requiring bond discounts to be expensed as period costs. Net position as of September 30, 2012 was restated \$252,225 to write off the unamortized bond discounts. Bond premiums continue to be amortized over the life of the bonds.

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.

Prepaid Transmission

The Department has made a long-term usage deposit for the availability of future transmission service with a public power district. The unused deposit at September 30, 2013 and 2012, is \$942,589 and \$2,175,599, respectively.

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	\$ 1,261,394	\$ 82,645	\$ (51,415)	\$ 1,292,627	\$ 847,458
September 30, 2012	\$ 1,210,414	\$ 143,623	\$ (92,643)	\$ 1,261,394	\$ 826,205

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, 2013 and 2012

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 does 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, 2013 and 2012

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 \$6,321,110 and \$6,320,655, respectively, are shown as nonoperating expenses for the years ended September 30, 2013 and 2012.

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, 2013 and 2012

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, 2013 and 2012.

The Department held certificates of deposit at September 30, 2013 and 2012, with a stated value of \$17,103,225 and \$15,997,298, respectively. At September 30, 2013 and 2012, 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, 2013 and 2012, are included in the statement of net assets as follows:

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 15,000	\$ 15,000
Equity in pooled cash	1,993,435	2,397,178
Equity in pooled investments	14,256,600	15,232,640
Equity in pooled cash – restricted	342,502	336,545
Certificates of deposit	<u>17,103,225</u>	<u>15,997,298</u>
	<u>\$ 33,710,762</u>	<u>\$ 33,978,661</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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, 2013 and 2012, the Department had the following investments and maturities:

	Maturities in Years				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
<u>2013</u>					
Certificates of deposit	\$ 19,338,273	\$ 15,176,282	\$ 3,671,991	\$ 490,000	\$ -
<u>2012</u>					
Certificates of deposit	\$ 18,233,633	\$ 15,260,208	\$ 2,483,425	\$ 490,000	\$ -

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, 2013 and 2012, 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, 2013 and 2012

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, 2013 and 2012:

<u>Financial Institution</u>	<u>2013</u>	<u>2012</u>
Cornerstone Bank	\$ 10,620,268	\$ 9,565,559
Home Federal	1,128,599	1,122,425
Exchange Bank	2,167,699	2,154,566
NPAIT	2,069,289	2,054,748
Great Western Bank	1,117,370	1,100,000
Wells Fargo Bank	<u>2,235,048</u>	<u>2,236,335</u>
	<u>\$ 19,338,273</u>	<u>\$ 18,233,633</u>

3. 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	\$ 342,502	\$ 336,545
Restricted investments	<u>2,235,048</u>	<u>2,236,335</u>
	<u>\$ 2,577,550</u>	<u>\$ 2,572,880</u>

Restricted cash and cash equivalents of \$342,502 and \$336,545 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012

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

4. 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	\$ 13,199,346	\$ 16,019,310	\$ -	\$ (2,238,094)	\$ 26,980,562
Land and land rights	3,647,573	-	-	-	3,647,573
Production plant	193,101,082	-	-	238,302	193,339,384
Transmission plant	17,440,721	-	-	-	17,440,721
Distribution plant	81,225,435	-	(503,223)	1,999,792	82,722,004
General plant	10,308,087	709,422	(289,928)	-	10,727,581
Plant acquisition adjustment	2,166,508	-	-	-	2,166,508
Non-utility property - land	254,223	-	-	-	254,223
Total property, plant, and equipment	321,342,975	16,728,732	(793,151)	-	337,278,556
Less accumulated depreciation	(196,203,205)	(10,012,351)	323,488	-	(205,892,068)
Net property, plant, and equipment	<u>\$ 125,139,770</u>	<u>\$ 6,716,381</u>	<u>\$ (469,663)</u>	<u>\$ -</u>	<u>\$ 131,386,488</u>
	2012				
	Beginning Balance	Additions	Adjustments and Retirements	Reclass	Ending Balance
Construction work-in-progress	\$ 6,679,188	\$ 10,190,960	\$ -	\$ (3,670,802)	\$ 13,199,346
Land and land rights	3,647,573	-	-	-	3,647,573
Production plant	192,710,267	-	-	390,815	193,101,082
Transmission plant	17,440,721	-	-	-	17,440,721
Distribution plant	78,972,545	-	(1,027,097)	3,279,987	81,225,435
General plant	10,265,873	251,038	(208,824)	-	10,308,087
Plant acquisition adjustment	2,166,508	-	-	-	2,166,508
Non-utility property - land	254,223	-	-	-	254,223
Total property, plant, and equipment	312,136,898	10,441,998	(1,235,921)	-	321,342,975
Less accumulated depreciation	(186,712,321)	(9,905,761)	414,877	-	(196,203,205)
Net property, plant, and equipment	<u>\$ 125,424,577</u>	<u>\$ 536,237</u>	<u>\$ (821,044)</u>	<u>\$ -</u>	<u>\$ 125,139,770</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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

5. Long-term Debt

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

	<u>2013</u>	<u>2012</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.	\$ 15,935,000	\$ 17,810,000
Less current maturities	<u>1,705,000</u>	<u>1,875,000</u>
Noncurrent portion	<u>\$ 14,230,000</u>	<u>\$ 15,935,000</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>\$ 17,810,000</u>	<u>\$ -</u>	<u>\$ (1,875,000)</u>	<u>\$ 15,935,000</u>	<u>\$ 1,705,000</u>
2012	<u>\$ 25,490,000</u>	<u>\$ 18,510,000</u>	<u>\$ (26,190,000)</u>	<u>\$ 17,810,000</u>	<u>\$ 1,875,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,705,000	\$ 412,912	\$ 2,117,912
2015	1,725,000	395,863	2,120,863
2016	1,750,000	374,300	2,124,300
2017	1,675,000	352,425	2,027,425
2018	1,795,000	327,300	2,122,300
2019-2023	<u>7,285,000</u>	<u>758,000</u>	<u>8,043,000</u>
	<u>\$ 15,935,000</u>	<u>\$ 2,620,800</u>	<u>\$ 18,555,800</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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

5. Long-term Debt, continued

The indentures under which the Department's revenue bonds were issued provide for the creation and maintenance of certain accounts. These accounts at September 30, 2013 and 2012, 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.

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 payment in lieu of taxes, amounting to \$798,670 and \$811,019 for 2013 and 2012, 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 \$1,069,601 and \$1,042,772 for the years ended September 30, 2013 and 2012, respectively.

NOTE D – OTHER NOTES

1. Pension Plan

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

All participants are fully vested in their own contributions and become vested in the Department's contribution at varying rates depending on their date of employment. Full vesting in the Department's contributions occurs after five years of participation in the plan. The participants' and Department's contributions were \$560,995 and \$560,995, respectively, for the year ended September 30, 2013, and \$540,479 and \$540,479, respectively, for the year ended September 30, 2012.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

NOTE D – OTHER NOTES, continued

2. Risk Management

The Department participates in the City's self-insurance program administered by the City's Risk Management Division (Division). The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insured loss fund. The Division provides first dollar coverage for all workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and automobile physical damage, as well as losses not covered by insurance. The Department has had no claims or judgments exceeding this commercial coverage in any of the past three fiscal years. Budgeted premium amounts charged to the Department are placed in the appropriate fund maintained by the Division. Premium expense for the Department was approximately \$785,000 and \$760,000, respectively, for the years ended September 30, 2013 and 2012.

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, 2013, had a principal balance of \$15,935,000 with interest at 0.4 percent to 4.0 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.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

NOTE D – OTHER NOTES, continued

4. Power Supply

The Department currently has generation capacity of approximately 273 MW from coal-fired and gas/oil-fired electric generating stations. The peak load of the Department during the fiscal year ended September 30, 2013, was approximately 161.1 MW in August 2013.

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, 2020.

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.

The Department entered into a coal supply agreement with Arch Coal Sales Company, Inc., on September 11, 2012, to obtain approximately 325,000 tons of coal from January 1, 2013, to December 31, 2013. On July 2, 2013, the Department also entered into an agreement with Alpha Coal Sales Company, LLC to obtain approximately 300,000 tons of coal from January 1, 2014, to December 31, 2014. The Department received 276,580 tons from January 1, 2013, through September 30, 2013, leaving 48,420 tons under contract for the remainder of calendar year 2013 and 300,000 tons under contract for calendar year 2014.

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 \$175,601 and \$172,547, respectively, for the years ended September 30, 2013 and 2012. The amount on deposit in the closure/post closure care account was \$342,502 and \$336,545 at September 30, 2013 and 2012, respectively.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2013 and 2012

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

At September 30, 2013, the Department has a contractual commitment to AMEC for the mercury and air toxic standards compliance retrofit project. The Department had paid \$7,414,079 of the contracted amount, leaving a balance of approximately \$33,775,000. The project is expected to be completed in 2015.

Substation J was recommended as one of several system improvements in a transmission study completed in 2008 by Advantage Engineering. Due to other improvements being higher priority and a reduction in load growth due to the recession, the substation was delayed. A contract for construction was awarded to IES Commercial in September 2013. A contract for the substation control building and associated panels is yet to be issued. The substation is anticipated to be in service by the end of 2014. The total cost for this project is approximately \$3,000,000.

6. EPA Emissions Allowances

As of September 30, 2013, the City had 8,209 SO₂ 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 was sold for \$0.65 (the September 30, 2013, market value), the City would recognize revenue of \$5,336.

The City will receive an additional 2,932 credits per year until 2043.

7. 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
ELECTRIC DEPARTMENT**

**OPERATING STATISTICS
(Unaudited)**

For the years ended September 30,

	<u>2013</u>	<u>2012</u>
Total net kilowatt hours generated	484,372,300	499,577,200
Additional kilowatt hours used at plant	<u>5,823,426</u>	<u>4,443,964</u>
Net kilowatt hours produced	478,548,874	495,133,236
Kilowatt hours purchased from WAPA, NPPD, OPPD, MEAN & TENASKA	418,687,850	314,623,200
Kilowatt hours sold to NPPD, MEAN & TENASKA	<u>145,896,560</u>	<u>43,120,000</u>
Total kilowatt hours available for sale	751,340,164	766,636,436
Kilowatt hours sold, as metered	<u>715,864,391</u>	<u>732,196,064</u>
Line loss	<u>35,475,773</u>	<u>34,440,372</u>
Line loss percentage	<u>4.72%</u>	<u>4.49%</u>
Monthly average number billed by class:		
Residential	20,430	20,278
Commercial	4,337	4,308
Industrial	<u>97</u>	<u>92</u>
Total	<u>24,864</u>	<u>24,678</u>

	<u>2013</u>		<u>2012</u>	
	<u>KWH</u>	<u>Revenue</u>	<u>KWH</u>	<u>Revenue</u>
Total KWH and revenue by class:				
Residential	211,890,051	\$ 19,854,920	216,200,092	\$ 19,600,354
Commercial	176,390,223	16,595,236	182,384,334	16,546,105
Industrial	<u>327,584,117</u>	<u>24,480,217</u>	<u>333,611,638</u>	<u>23,660,053</u>
Total	<u>715,864,391</u>	<u>\$ 60,930,373</u>	<u>732,196,064</u>	<u>\$ 59,806,512</u>
Average revenue per KWH sold		<u>\$ 0.0851</u>		<u>\$ 0.0817</u>



**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
Michael E. Hoback

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, 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 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.

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.

Augusta Malthahn
Galloway & Luth, P.C.

Grand Island, Nebraska
January 23, 2014