

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

FINANCIAL STATEMENTS

September 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
Grand Island, Nebraska

We have audited the accompanying financial statements of the City of Grand Island, Nebraska, Electric Department, as of and for the years ended September 30, 2011 and 2010, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A, the financial statements present only the City of Grand Island, Nebraska, Electric 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, 2011 and 2010, and the change in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Island, Nebraska, Electric Department, as of September 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SHAREHOLDERS

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012, on our consideration of the City of Grand Island, Nebraska, Electric Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Grand Island, Nebraska, Electric Department has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the City of Grand Island, Nebraska, Electric Department. The accompanying other supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

Amquist, Mathew
Galloway - Luth, P.C.

Grand Island, Nebraska
January 26, 2012

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

STATEMENTS OF NET ASSETS

September 30,

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,958,118	\$ 3,213,255
Investments	21,905,458	20,181,089
Receivables:		
Accounts, net of allowance for doubtful accounts of \$361,375 at September 30, 2011, and \$380,377 at September 30, 2010	4,831,304	4,448,519
Unbilled revenue	2,262,287	2,334,524
Interest	72,309	101,779
Inventory	10,857,185	11,794,774
Prepaid expenses	393,149	365,465
Total current assets	46,279,810	42,439,405
Noncurrent assets:		
Restricted cash and cash equivalents	330,708	327,945
Restricted investments	6,510,499	6,383,780
Unamortized bond costs	70,719	97,642
Deferred charges	1,743,650	2,652,645
Prepaid transmission	3,276,241	4,531,963
Capital assets:		
Construction in progress	6,679,188	2,930,700
Land and land improvements	6,068,304	6,068,304
Distribution and collection systems	271,682,812	268,873,323
Buildings and equipment	27,706,594	27,583,488
Less accumulated depreciation	(186,712,321)	(177,434,298)
Net capital assets	125,424,577	128,021,517
Total noncurrent assets	137,356,394	142,015,492
Total assets	183,636,204	184,454,897
LIABILITIES		
Current liabilities:		
Accounts payable	2,491,415	1,537,874
Accrued expenses	806,498	804,699
Compensated absences - current	815,174	850,133
Accrual for payments in lieu of taxes	689,459	654,280
Current portion of long-term obligations	4,610,000	4,425,000
Total current liabilities	9,412,546	8,271,986
Noncurrent liabilities:		
Compensated absences - noncurrent	395,240	355,232
Fly ash liability	168,998	167,407
Noncurrent portion of long-term obligations	20,880,000	25,490,000
	21,444,238	26,012,639
Total liabilities	30,856,784	34,284,625
NET ASSETS		
Invested in capital assets, net of related debt	105,025,187	105,388,767
Restricted for:		
Debt service	6,511,584	6,385,204
Unrestricted	41,242,649	38,396,301
Total net assets	\$ 152,779,420	\$ 150,170,272

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended September 30,

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Electric energy sales:		
Residential	\$ 17,783,245	\$ 17,526,180
Commercial and industrial	34,256,264	32,908,854
Municipal and interdepartmental	1,936,424	1,924,996
Wholesale	2,818,760	1,611,770
Total sales	56,794,693	53,971,800
Other revenue	578,858	298,095
Total operating revenues	57,373,551	54,269,895
Operating expenses:		
Cost of power	29,569,667	30,166,623
Operation of system	1,799,692	1,746,489
Maintenance of system	1,454,554	1,334,150
Consumer accounting and collection	1,226,200	1,170,455
Employee benefits and payroll	1,329,466	1,453,688
General office salaries and expense	294,382	294,678
Special services	1,161,334	990,248
Insurance	705,440	590,746
Miscellaneous	303,560	379,185
Depreciation	9,850,659	9,705,249
Amortization	26,923	31,965
Total operating expenses	47,721,877	47,863,476
Operating income	9,651,674	6,406,419
Nonoperating revenues (expenses):		
Investment income	425,196	561,471
Gain on disposal of capital assets	19,739	2,750
Allocated debt on participation power purchases	(5,345,260)	(2,724,107)
Payments in lieu of taxes	(689,459)	(654,280)
Interest expense	(1,452,742)	(1,569,939)
Total nonoperating revenues (expenses)	(7,042,526)	(4,384,105)
Change in net assets	2,609,148	2,022,314
Net assets, beginning of year	150,170,272	148,147,958
Net assets, end of year	\$ 152,779,420	\$ 150,170,272

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 57,063,003	\$ 53,219,123
Cash paid to suppliers for goods and services	(25,853,086)	(29,082,977)
Cash paid to employees for services	(8,841,685)	(8,671,732)
Net cash provided by operating activities	<u>22,368,232</u>	<u>15,464,414</u>
NONCAPITAL FINANCING ACTIVITIES:		
Payments in lieu of taxes	(654,280)	(777,289)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(7,379,440)	(5,817,884)
Proceeds on sale of capital assets	145,460	64,778
Decrease in deferred charges	908,995	776,578
Increase (decrease) in fly ash liability	1,591	(39,239)
Payment of allocated debt on participation power purchase	(5,345,260)	(2,724,107)
Principal payments on long-term debt	(4,425,000)	(4,240,000)
Interest paid	(1,476,250)	(1,662,490)
Net cash used in capital and related financing activities	<u>(17,569,904)</u>	<u>(13,642,364)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments redeemed	18,432,851	20,751,512
Investments purchased	(20,283,939)	(21,391,160)
Interest received	454,666	654,861
Net cash provided (used) by investing activities	<u>(1,396,422)</u>	<u>15,213</u>
Net increase in cash and cash equivalents	2,747,626	1,059,974
Cash and cash equivalents - beginning of year	<u>3,541,200</u>	<u>2,481,226</u>
Cash and cash equivalents - end of year	<u><u>\$ 6,288,826</u></u>	<u><u>\$ 3,541,200</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 5,958,118	\$ 3,213,255
Restricted cash and cash equivalents	330,708	327,945
Total cash and cash equivalents	<u><u>\$ 6,288,826</u></u>	<u><u>\$ 3,541,200</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>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,651,674	\$ 6,406,419
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,850,659	9,705,249
Amortization	26,923	31,965
Change in assets and liabilities:		
Accounts receivable	(310,548)	(1,050,772)
Inventories	937,589	(960,364)
Prepaid expenses	(27,684)	19,889
Prepaid transmissions	1,255,722	1,031,175
Accounts payable and accrued expenses	983,897	280,853
	<u>\$ 22,368,232</u>	<u>\$ 15,464,414</u>
 Supplemental cash flow information:		
Acquisition of capital assets through developers' aid of construction	<u>\$ -</u>	<u>\$ -</u>
Accounts payable incurred for capital asset purchases	<u>\$ -</u>	<u>\$ 30,324</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, 2011 and 2010

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 and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The financial statements referred to above present only the Department and do not purport to, and do not, present fairly the financial position of the City of Grand Island, Nebraska, as of September 30, 2011 and 2010, 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. 14 and Statement No. 39, and has included all organizations that make up the Department's legal entity and all component units. Consistent with applicable guidance, the criteria used by the Department to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. The Department includes organizations as component units under the following financial accountability criteria:

- (1) Organizations for which the Department appoints a voting majority of the organization's governing body and for which (a) the Department is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department.
- (2) Organizations which are fiscally dependent on the Department. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Department.

The Department is an enterprise fund of the City of Grand Island, Nebraska, and has determined that it has no component units for reporting purposes.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

2. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The Department utilizes the “flow of economic resources” measurement focus and uses the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

Basis of Accounting

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Department’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and License prescribed by the Federal Energy Regulatory Commission (FERC). The Department prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). In reporting financial activity, applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins are applied, except for those that conflict with or contradict Government Accounting Standards Board pronouncements.

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

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, 2011 and 2010

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 \$9,358,535 and \$7,760,238 of investments and \$6,272,741 and \$3,524,776 of cash and cash equivalents at September 30, 2011 and 2010, respectively.

Investments and Investment Income

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and guaranteed investment contracts 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.

Inventories

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

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. Assets, Liabilities, and Equity, continued

Restricted assets

Restricted assets include cash and investments that are legally restricted as to their use. The restricted assets are related to debt service reserve accounts and 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 2011 and 3.31 percent in 2010.

Costs related to studies expected to result in construction and/or acquisition of additional utility plant are deferred pending completion. Upon completion, such costs are capitalized as part of the cost of the plant to be constructed or acquired. If a project is terminated, costs of studies related thereto are charged to expense in accordance with the rate-making treatment adopted.

The Department capitalizes interest costs as a component of productive capacity, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2011</u>	<u>2010</u>
Interest costs capitalized	\$ -	\$ -
Interest costs charged to expense	<u>1,452,742</u>	<u>1,569,939</u>
Total interest incurred	<u>\$ 1,452,742</u>	<u>\$ 1,569,939</u>

Unamortized Bond Discount

Bond discount fees for the Department are deferred and amortized over the life of the bonds using the effective interest method.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. Assets, Liabilities, and Equity, continued

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 SFAS 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, 2011 and 2010, is \$3,276,241 and \$4,531,963, 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. Union employees are eligible to receive annually one-half of their total accrued sick pay in excess of 960 hours at their current rate. Non-union employees are no longer eligible to receive one-half of their total accrued sick pay in excess of 960 hours. The final such payment for the non-union employees was made on September 30, 2010.

Compensated absences of the Department are summarized below:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
September 30, 2011	\$ 1,205,365	\$ 93,370	\$ (88,321)	\$ 1,210,414	\$ 815,174
September 30, 2010	\$ 1,123,465	\$ 174,966	\$ (93,066)	\$ 1,205,365	\$ 850,133

Long-term Debt

The long-term debt consists of bonds payable.

Net Asset Classifications

Net Assets are classified into three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or improvement of those assets.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. Assets, Liabilities, and Equity, continued

Net Asset Classifications, continued

- b. Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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.

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 \$5,345,260 and \$2,724,107 are shown as nonoperating expenses for the years ended September 30, 2011 and 2010.

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:

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

1. Deposit Laws and Regulations

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Department's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The Department's cash deposits, including certificates of deposit, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing demand deposits, up to \$250,000 for interest-bearing time deposits/savings, and all non-interest-bearing deposits are insured. Any cash deposits or certificates of deposit in excess of the FDIC limits are insured by collateral held by the pledging institution in the Department's name.

2. Debt Restrictions and Covenants

Bonds Payable

The various bond ordinances relating to the bonds payable contain some restrictions or covenants that are financial-related. These include covenants such as debt service coverage requirements and required reserve account balances. The Department is in compliance with the bond restrictions and covenants.

3. Budgetary Data

An appropriated budget is adopted each fiscal period for the Department on the cash basis, which is consistent with State of Nebraska budget guidelines. Budgets are approved by the City Council.

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for the Department's various assets, liabilities, equity, revenues, and expenditures/expenses.

1. Cash and Cash Equivalents

Deposits

State law requires collateralization of all deposits with federal depository insurance or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The Department has been allocated a portion of the City's pooled cash. Of the pooled funds, none were uninsured and uncollateralized at September 30, 2011 and 2010.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

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

1. Cash and Cash Equivalents, continued

Deposits, continued

The Department held certificates of deposit at September 30, 2011 and 2010, with a stated value of \$12,546,923 and \$12,420,851, respectively. At September 30, 2011 and 2010, 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, 2011 and 2010, are included in the statement of net assets as follows:

	<u>2011</u>	<u>2010</u>
Petty cash	\$ 15,000	\$ 15,000
Equity in pooled cash	5,943,118	3,198,255
Equity in pooled investments	9,358,535	7,760,238
Equity in pooled cash – restricted	329,623	326,521
Certificates of deposit	12,546,923	12,420,851
Restricted cash – bond reserves	<u>1,085</u>	<u>1,424</u>
	<u>\$ 28,194,284</u>	<u>\$ 23,722,289</u>

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, bank repurchase agreements, and certain guaranteed investment contracts.

At September 30, 2011 and 2010, the Department had the following investments and maturities:

	Maturities in Years				
	<u>2011</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Guaranteed investment contracts	\$ 5,150,000	\$ -	\$ 5,150,000	\$ -	\$ -
U.S. Government securities	1,360,499	1,360,499	-	-	-
	<u>\$ 6,510,499</u>	<u>\$ 1,360,499</u>	<u>\$ 5,150,000</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>2010</u>				
Guaranteed investment contracts	\$ 5,150,000	\$ -	\$ -	\$ 5,150,000	\$ -
U.S. Government securities	1,233,780	1,233,780	-	-	-
	<u>\$ 6,383,780</u>	<u>\$ 1,233,780</u>	<u>\$ -</u>	<u>\$ 5,150,000</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

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

2. Investments, continued

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. At September 30, 2011 and 2010, the Department's investment in a guaranteed investment contract was not rated by a nationally recognized statistical rating organization.

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, 2011 and 2010, are held by the counterparties in other than the Department's name. The guaranteed investment contracts are not subject to custodial credit risk.

Concentration of Credit Risk. The Department's investment policy places no limit on the amount that may be invested in any one issuer. At September 30, 2011 and 2010, the Department's investment in JP Morgan guaranteed investment contracts of \$5,150,000 and \$5,150,000 constituted 79 percent and 81 percent, respectively, of its total investments.

3. Restricted Assets

The restricted assets as of September 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Restricted cash and cash equivalents	\$ 330,708	\$ 327,945
Restricted investments	<u>6,510,499</u>	<u>6,383,780</u>
	<u>\$ 6,841,207</u>	<u>\$ 6,711,725</u>

The restricted cash and cash equivalents represent the bond and interest sinking fund and the reserve for fly ash liability and 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, 2011 and 2010

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

5. Long-term Debt

Long-term debt at September 30, 2011 and 2010, is shown below:

	<u>2011</u>	<u>2010</u>
Electric System Revenue Bonds, 2001 Series, due serially to August 15, 2016, interest from 3.80% to 5.125%, secured by the Electric System revenues	\$ 25,490,000	\$ 29,915,000
Less current maturities	<u>4,610,000</u>	<u>4,425,000</u>
Noncurrent portion	<u>\$ 20,880,000</u>	<u>\$ 25,490,000</u>

Long-term debt activity for 2011 and 2010 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>
2011	<u>\$29,915,000</u>	<u>\$ -</u>	<u>\$(4,425,000)</u>	<u>\$25,490,000</u>	<u>\$ 4,610,000</u>
2010	<u>\$34,155,000</u>	<u>\$ -</u>	<u>\$(4,240,000)</u>	<u>\$29,915,000</u>	<u>\$ 4,425,000</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>
2012	\$ 4,610,000	\$ 1,288,188	\$ 5,898,188
2013	4,845,000	1,057,687	5,902,687
2014	5,085,000	815,438	5,900,438
2015	5,340,000	561,187	5,901,187
2016	<u>5,610,000</u>	<u>287,513</u>	<u>5,897,513</u>
	<u>\$ 25,490,000</u>	<u>\$ 4,010,013</u>	<u>\$ 29,500,013</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

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, 2011 and 2010, 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 2001 bonds are subject to optional redemption prior to maturity on or after the 10th anniversary of the date of delivery of the 2001 bonds, in whole or in part, at the principal amount thereof plus accrued interest to the date fixed for redemption.

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 \$689,459 and \$654,280 for 2011 and 2010, 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 \$1,022,618 and \$899,101 for the years ended September 30, 2011 and 2010, 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 \$530,912 and \$530,912, respectively, for the year ended September 30, 2011, and \$543,325 and \$543,325, respectively, for the year ended September 30, 2010.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

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 \$679,000 and \$751,000 for the years ended September 30, 2011 and 2010.

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, 2011, had a principal balance of \$25,490,000 with interest at 5.0 percent to 5.125 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 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, 2011, was approximately 167.9 MW in August 2011.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE D – OTHER NOTES, continued

4. Power Supply, continued

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's commitment to the project is approximately \$45,000,000. The Department has also entered into an agreement with the Public Power Generating Agency to obtain approximately 15 MW of energy at a cost of approximately \$22,000,000. This project was completed in May 2011.

The Department entered into a coal supply agreement with Arch Coal Sales Company, Inc., on November 23, 2010, to obtain approximately 310,000 tons of coal from January 1, 2011, to December 31, 2011, and approximately 250,000 tons of coal from January 1, 2012, to December 31, 2012. The Department received 252,082 tons from January 1, 2011, through September 30, 2011, leaving 57,918 tons under contract for the remainder of calendar year 2011 and 250,000 tons under contract for calendar year 2012.

Regulatory Compliance

The Department currently has a fly ash disposal area. State and Federal laws require the Department to close, monitor, and maintain the disposal area once capacity is reached. The estimated costs of closure and post-closure care as determined by the Department are subject to changes due to effects of inflation, revision of laws, changes in technology, and other variables. As of September 30, 2011 and 2010, the Department had incurred a liability of approximately \$168,998 and \$167,407, respectively, for closure and post-closure costs for the disposal area.

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. No construction or equipment purchase contracts have been entered into as of the current date. Financing of these expenditures is expected to be through available cash reserves and bonded debt.

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

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2011 and 2010

NOTE D – OTHER NOTES, continued

6. EPA Emissions Allowances

As of September 30, 2011, the City had 7,791 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 \$0.75 (the September 30, 2011, market value), the City would recognize revenue of \$5,843.

The City will receive an additional 2,932 credits per year until 2040.

7. Subsequent Events

Management has evaluated subsequent events through January 26, 2012, the date on which the financial statements were available for issue.

OTHER SUPPLEMENTARY INFORMATION

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

**OPERATING STATISTICS
(Unaudited)**

For the years ended September 30,

	<u>2011</u>	<u>2010</u>
Total net kilowatt hours generated	565,450,300	576,806,500
Additional kilowatt hours used at plant	4,536,804	4,825,476
Net kilowatt hours produced	<u>560,913,496</u>	<u>571,981,024</u>
Kilowatt hours purchased from WAPA & NPPD	261,002,900	228,874,600
Kilowatt hours sold to NPPD	<u>73,219,100</u>	<u>56,101,000</u>
Total kilowatt hours available for sale	748,697,296	744,754,624
Kilowatt hours sold, as metered	<u>715,049,181</u>	<u>710,696,583</u>
Line loss	<u>33,648,115</u>	<u>34,058,041</u>
Line loss percentage	<u>4.49%</u>	<u>4.57%</u>
Monthly average number billed by class:		
Residential	20,152	20,071
Commercial	4,280	4,249
Industrial	<u>87</u>	<u>84</u>
Total	<u>24,519</u>	<u>24,404</u>

	<u>2011</u>		<u>2010</u>	
	<u>KWH</u>	<u>Revenue</u>	<u>KWH</u>	<u>Revenue</u>
Total KWH and revenue by class:				
Residential	216,330,992	\$ 18,094,643	217,745,672	\$ 17,821,392
Commercial	178,453,418	15,095,933	176,787,889	14,656,691
Industrial	<u>320,264,771</u>	<u>20,828,569</u>	<u>316,163,022</u>	<u>19,844,342</u>
Total	<u>715,049,181</u>	<u>\$ 54,019,145</u>	<u>710,696,583</u>	<u>\$ 52,322,425</u>
Average revenue per KWH sold		<u>\$ 0.0755</u>		<u>\$ 0.0736</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

SHAREHOLDERS

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

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

We have audited the financial statements of the City of Grand Island, Nebraska, Electric Department as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated January 26, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Grand Island, Nebraska, Electric Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grand Island, Nebraska, Electric Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Grand Island, Nebraska, Electric Department's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Email: cpa@gicpas.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grand Island, Nebraska, Electric Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Grand Island, Nebraska, in a separate letter dated January 26, 2012.

This report is intended solely for the information of Management and the Mayor and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

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

Grand Island, Nebraska
January 26, 2012