HASTINGS UTILITY BOARD
AGENDA

Council Chambers – City Hall
220 North Hastings Avenue
April 11, 2019
9:00 AM

ROLL CALL:

PLEDGE OF ALLEGIANCE:

MOTION TO ADOPT CURRENT AGENDA FOR April 11, 2019 REGULAR MEETING.

PUBLIC NOTICE - Official Notice of the Regular Meeting was published in the Hastings Tribune on Tuesday, April 9, 2019. Pursuant to Nebraska Revised Statute Section 84-1412, the public is advised that a copy of today's agenda and all reproducible written material which will be discussed at today's meeting is located at the back of the Council Chambers. Also, a current copy of the Nebraska Open Meetings Act is posted on the south wall of the Council Chambers which is accessible to members of the public.

MANAGER'S COMMUNICATIONS:

BOARD CHAIRMAN'S COMMUNICATIONS:

BOARD MEMBERS' COMMUNICATIONS:

CITIZEN COMMUNICATIONS:

CONSENT AGENDA:

1. <u>All Consent Items.</u>

   (a) Approval of the minutes of the Hastings Utility Board Meeting of February 14, 2019

REGULAR AGENDA:

2. <u>Unfinished Business of Preceding Meeting.</u>

3. <u>General Business.</u>

   (a) Finance

i. Presentation of the 2017-2018 Audit

ii. Fiscal Year End 2017-2018 Financial Review

(b) Production

i. Solar Project Update

(c) Operations

i. Recommendation from Staff for Award of Contract for Water Main Improvements (Contract HU 2019-03 IC-08)

(d) Administration

i. Irrigation Customer Feedback Planning

ii. Approval of Release for Early Termination of NPGA Membership

iii. Strategic Initiatives Summary Report

(e) Other

4. Possible Closed Session (if necessary or requested).

ADJOURN:

The Hastings Utility Board reserves the right to enter into an executive session at any time during the meeting, in accordance with the Nebraska Open Meetings Act, even though the closed session may not be indicated on the agenda. It is the intention of the Hastings Utility Board to take up the items on the agenda in sequential order. However, the Hastings Utilities Board reserves the right to take up matters in a different order to accommodate the schedule of the Utility Board Members, persons having items on the agenda, and the public.

CITY OF HASTINGS, NEBRASKA
MINUTES OF UTILITY BOARD REGULAR MEETING
Thursday, February 14, 2019

Pursuant to due call and notice thereof, a Regular Meeting of the Utility Board of Hastings, Nebraska was conducted in the Council Chambers of City Hall, 220 N. Hastings Avenue, on February 14, 2019.

ROLL CALL:

The meeting was called to order at 9:00 a.m. in Regular Session by Chairman Jack Schreiner with the following members present: Jack Schreiner, Bill Hitesman, Shawn Hartmann, Joanne Seberg. Absent: Shayne Raitt.

PLEDGE OF ALLEGIANCE:

The Chairman led the group in recital of the Pledge of Allegiance to the United States of America.

MOTION TO ADOPT CURRENT AGENDA FOR February 14, 2019 REGULAR MEETING.

Moved by Bill Hitesman seconded by Shawn Hartmann to adopt the current agenda for February 14, 2019 regular meeting. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

PUBLIC NOTICE - Official Notice of the Regular Meeting was published in the Hastings Tribune on Tuesday, February 12, 2019.

Chairman Jack Schreiner read the Public Notice - Pursuant to Nebraska Revised Statute Section 84-1412, the public is advised that a copy of today's agenda and all reproducible written material which will be discussed at today's meeting is located at the back of the Council Chambers. Also, a current copy of the Nebraska Open Meetings Act is posted on the south wall of the Council Chambers which is accessible to members of the public.

MANAGER'S COMMUNICATIONS:

None.

BOARD CHAIRMAN'S COMMUNICATIONS:

None.

BOARD MEMBERS' COMMUNICATIONS:

None.

CITIZEN COMMUNICATIONS:

None.

CONSENT AGENDA:

1. All Consent Items.

   (a) Approval of the minutes of the Hastings Utility Board Meeting of January 10, 2019

Moved by Shawn Hartmann seconded by Joanne Seberg to approve All Consent Items. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

REGULAR AGENDA:

2. Unfinished Business of Preceding Meeting.

None.

3. General Business.

   (a) Finance

      i. Update on Finance Reporting Status

Roger Nash updated the Board on the Finance Reporting Status. He informed the Board that the Auditors will present their audit at the next Board meeting in March. Nash stated that our auditors also do consulting work with cities outside of doing the audit. He is going to work with them to put a proposal together to help get ideas on how to get things back on track in the finance department. He has been down two people in the department. Once he gets the proposal, Roger will run that by administration to see if they will allow him to hire them to help get the department caught up.

   (b) Operations

      i. Recommendation on ASR Extraction Well - Pump and Wellhouse

Keith Leonhardt reported that this recommendation is part of the ASR Project. He said that Well 30 is one of the extractions wells that were drilled and cased last year. This project is to install the pump, wellhouse, variable frequency drives and all the work to get it ready to use.

Moved by Shawn Hartmann seconded by Bill Hitesman to recommend the City Council award a contract for ASR Extraction Well - Pump and Wellhouse (Contract No. HU 2019-01, IC-01) to Downey Drilling, Lexington, Nebraska, for an amount of $335,256.00. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

   (c) Administration

      i. Recommendation on NDS Building Addition

Keith Leonhardt said that staff is proposing doing some renovation to the NDS Administration area. He said this would include enlarging the lobby, provide a secure area for workers, handicapped restroom, and a drive up window for customers. He said that the first step in this process is to hire an architect to do the architectural design. This recommendation will allow staff to hire the architect.

Moved by Joanne Seberg seconded by Shawn Hartmann to recommend the City Council award a contract (HU2019-01 RFP-02) for NDS Building to W Design, Hastings, Nebraska, contingent on the successful negotiation of an architectural agreement for a total of $71,280.00. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

(d) Production

i. Recommendation on Hastings Community Solar Farm - Phase 1

Derek Zeisler presented a bid evaluation for the Hastings Community Solar Farm. He gave a handout on talking points on the following: Why staff is considering renewables (solar), The purchase options, Bid evaluation review, Timing, Funding, Location, Marketing and pricing, Economic development support, and Community education.

Moved by Bill Hitesman seconded by Shawn Hartmann to recommend the City Council award a contract for Hastings Community Solar Farm - Phase 1 (HU2018-11 FC-34) to GenPro Energy Solutions for a total cost of $2,380,000 including sales tax, as the lowest responsible bidder evaluated over the expected life of the field. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

(e) Other

None.

4. Possible Closed Session (if necessary or requested).

Moved by Bill Hitesman seconded by Joanne Seberg that this Board go into Closed Session, which Closed Session is clearly necessary for the protection of the public interest in that said Closed Session will consist of a strategy session relative to negotiations. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

The meeting closed to the public at 9:46 a.m.

Moved by Joanne Seberg seconded by Shawn Hartmann that the meeting be reopened to the public at 10:17 a.m., and that no decisions were made nor official actions taken during said Closed Session. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

ADJOURN:

Moved by Shawn Hartmann seconded by Bill Hitesman that there being no further business, the meeting adjourn at 10:17 a.m. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Jack Schreiner, Joanne Seberg. Nays: None. Absent: Shayne Raitt. The motion carried.

APPROVED:

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Board Secretary

ALMQUIST
MALTZAHN
GALLOWAY
& LUTH
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Utility Advisory Board
Hastings Utilities
City of Hastings, Nebraska

We have audited the financial statements of the business-type activities and each major fund of Hastings Utilities, Hastings, Nebraska for the year ended September 30, 2018, and have issued our report thereon dated February 7, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 27, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hastings Utilities, Hastings, Nebraska are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2018. We noted no transactions entered into by Hastings Utilities during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the collectability of accounts receivable is based on historical utility revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the collectability of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

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Management's estimate of the depreciation of capital assets is based on the estimated useful life of the capital asset. We evaluated the key factors and assumptions used to develop the depreciation of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accumulated fly ash disposal cost liability is based on estimated premature closure and post-closure costs. We evaluated the key factors and assumptions used to estimate the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Thirty-two audit adjustments decreased the net position of the Hastings Utilities' business-type funds by $2,625,968. (Half of the audit adjustments were prepared by client but are counted as audit adjustments as they were made after the audit fieldwork began on December 17, 2018.) The following material misstatements detected as a result of audit procedures were corrected by management:

1. Grants receivable and revenue were both increased $510,827 to record the amount due on the Water Sustainability grant.

2. Water contribution in aid of construction revenue was decreased and combined liabilities were increased $2,781,130 to reclassify the SRF loan from DEQ.

3. A $95,782 receivable was recorded on combined utilities with offsetting increases to water and sewer contributions in aid of construction.

4. Transfers payable to the City and in-lieu of expenses were increased $17,739 on electric and $94,541 on combined utilities.

5. An $83,000 allowance for uncollectible utility accounts receivable was recorded on electric with an increase to bad debts expense.

6. A $75,544 reinsurance receivable was recorded with an offsetting decrease to employee benefits expense on combined utilities.

7. Health claims payable were increased $164,719 with offsetting increases to expenses.

8. Compensated absences liability and expenses were increased $173,232 on combined utilities.

9. Accrued comp time was increased $52,722 with an offsetting increase to expenses to record a holiday pay adjustment on electric.

10. Accounts payable and expenses were decreased $92,616 to reverse the prior year accrual of payroll taxes.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 7, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Hastings Utilities' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hastings Utilities' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In connection with our audit of the financial statements of Hastings Utilities, Hastings, Nebraska as of September 30, 2018, we noted certain matters that we believe you should consider. Our observations were formed as a by-product of our audit procedures, which did not include a comprehensive review for the purpose of submitting detailed recommendations.

1. During our audit of capital assets, we noted there was no listing of individual capital assets just category totals. We recommend creating a capital asset listing to have better control over the tracking of assets. When assets are being disposed of they are always treated as if they are fully depreciated. An accurate asset listing would help calculate the

gain on sale of any assets with a remaining basis. Currently, the depreciation is being calculated monthly with rates from 1944. An asset listing would allow depreciation to be accurately calculated for each asset with appropriate rates.

2. During our audit, we noted that the flex plan payable balance was overstated by $19,767 due to prior year forfeitures that have not been removed from the liability. We recommend reviewing PayFlex's report at minimum on a quarterly basis and adjusting the balance to actual employee account balances, in order to ensure that prior year forfeitures are properly accounted for.

3. We noted the fly ash liability continues to be accrued as an offset to cash with the exception of the 2017 audit adjustment. This calculations does not take into account the actual liability that the City would be liable for in the event of a closure due to the ever fluctuating amount of fly ash on hand. The current liability is based on the assumption that all current ash can be hauled for average of $11.07 per ton and that there is no additional excavation or dumping costs, which are both conservative estimates. We recommend determining some sort of calculation in order to provide a more accurate liability relating to the closure of Whelen Energy Center Unit #1, as the financial assurance required by Nebraska Department of Environmental Quality only provides to satisfy financial assurance requirements and does not properly account for proper GAAP treatment of the true liability.

4. During our audit, we noted payroll could not be reconciled between the general ledger and the payroll system, as wages are posted to various projects and accounts. We recommend posting wages to specific accounts for payroll in the future, so employee costs can be accurately tracked.

5. During our audit, we noted that there were debit and credit balances in asset clearing accounts due to standard mileage rates being used to allocate vehicle expenses. We recommend making these accounts revenue or expense accounts to avoid over or under stating asset accounts in the future.

6. We noted that supply inventory is not reconciled to the trial balance and therefore we were unable to attain a listing that matched the balances. We recommend determining a process in order to reconcile inventory listings to the general ledger.

7. During our audit, we noted several work orders for projects that have been completed but were not closed out, so they were still being carried as construction in progress. We recommend closing and capitalizing all work orders timely when completed.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information as described in the table of contents, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Utility Advisory Board, City Council and management of Hastings Utilities, Hastings, Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

Almquist, Maltzahn,
Galloway & Luth, P.C.

Grand Island, Nebraska
February 7, 2019

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT
FINANCIAL REPORT

SEPTEMBER 30, 2018 and 2017

CONTENTS

ALMQUIST
MALTZAHN
GALLOWAY
& LUTH
CERTIFIED
PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Utility Advisory Board
Hastings Utilities
City of Hastings, Nebraska

We have audited the accompanying financial statements of the business-type activities and each major fund of Hastings Utilities, Hastings, Nebraska, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Hastings Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Hastings Utilities, as of September 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Hastings Utilities (Electric System and Combined System) of the City of Hastings, Nebraska, and do not purport to, and do not present fairly the financial position of the City of Hastings, Nebraska, as of September 30, 2018 and 2017, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hastings Utilities' basic financial statements. The accompanying supplementary information as described in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information as described in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information as described in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019, on our consideration of the Hastings Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hastings Utilities' 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 Hastings Utilities' internal control over financial reporting and compliance.

Almquist, Maltzahn, Galloway & Luth, P.C.

Grand Island, Nebraska
February 7, 2019

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

MANAGEMENT'S DISCUSSION & ANALYSIS
September 30, 2018 and 2017

This Management's Discussion and Analysis ("MD&A") is part of the annual financial report for the City of Hastings Utility Department (HU). The purpose of the MD&A is to present an overview and analysis of the financial activities of HU during the fiscal years ending September 30, 2018, September 30, 2017, and September 30, 2016. HU's fiscal year end was changed from December 31 to September 30. As a result, for this year there will be a comparison of two twelve month years with a nine month fiscal year that ended September 30, 2016. The MD&A should be read in conjunction with HU's financial statements, which immediately follow this section of the report.

USING THIS REPORT

The Statement of Net Position includes information on HU's assets and liabilities at September 30, 2018 and September 30, 2017. It includes all investments in resources (assets), deferred outflows of resources (deferred outflows), obligations to creditors (liabilities), deferred inflows of resources (deferred inflows), and net position (equity).

The Statements of Revenue and Expenses and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year.

The Statement of Cash Flows presents changes in cash and cash equivalents, separated by operating activities, capital and non-capital financing activities, and investing activities.

These statements help to answer the question "Is HU as a whole better off or worse off financially as a result of the period's activities?" Change in net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows, and is one way to measure HU's financial health. Increases or decreases in net position can indicate improving or deteriorating financial health. This information, used along with the rest of this report, should be considered as a whole, along with any notable non-financial factors.

OVERVIEW OF HASTINGS UTILITIES

Hastings Utility Department (HU) is a municipally-owned, not-for-profit utility system that provides its customers a number of essential services. Each service operates as its own company, with separate revenue, expense and budgeting functions. These utility operations were brought within the governance of the Mayor and City Council in May 2017. A 5-member Utility Advisory Board appointed by the Mayor reviews the utility operations' and budget and makes recommendations on both to the Mayor and City Council for their approval. These recommendations assist the Mayor and City Council in making sound, well-informed decisions which will provide utility customers with reliable, dependable service at very competitive rates well into the future.

The Utility Advisory Board members are local citizens and also customers of the services provided by HU. Each of the five board members is appointed for a five-year term with one appointment or reappointment made each year.

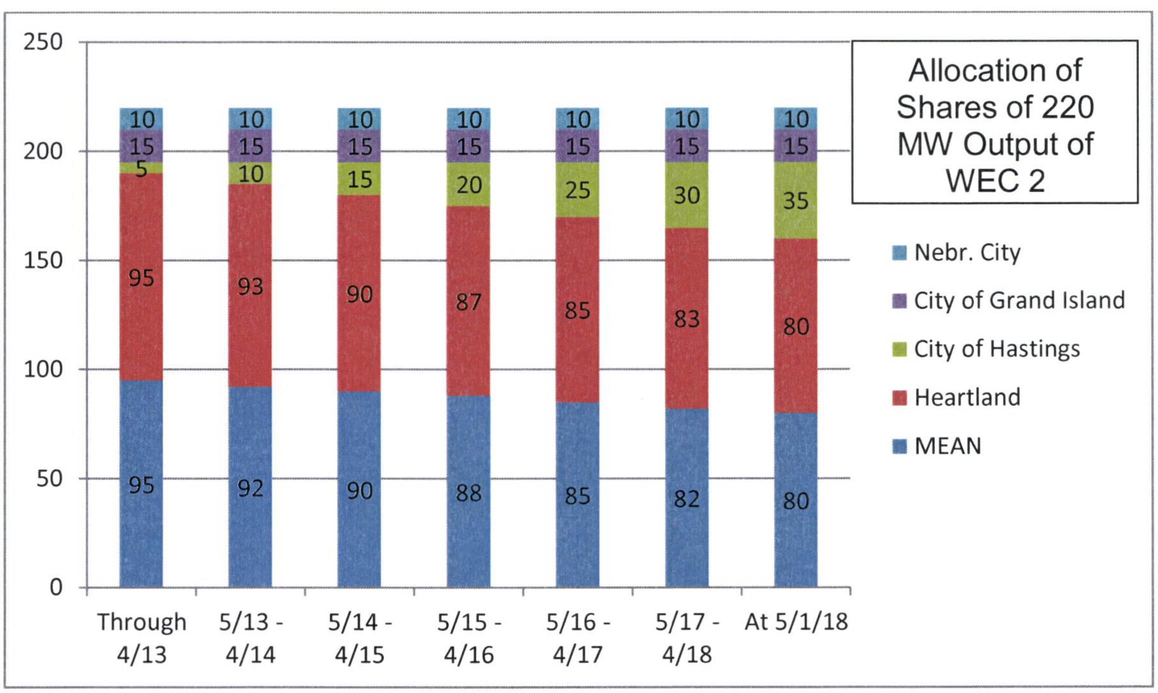
The Electric system consists of generation at the Whelan Energy Center 1 (WEC 1), a coal fired power plant; the North Denver Station (NDS) and the Don Henry Power Center (DHPC). Maintenance and construction of transmission and distribution systems is provided by the Line and Substation/Metering departments.

Unit	Rating	Commercial Operation Date
Whelan Energy Center Unit 1	77 MW	1981
North Denver Station Unit 4	15 MW	1957
North Denver Station Unit 5	25 MW	1967
Don Henry Power Center Unit 1	18 MW	1972

The Combined system includes gas, water, pollution control, and street lighting utilities.

HU also purchases power from Whelan Energy Center 2 (WEC 2), a coal fired power plant rated at 220MW, which is owned by the Public Power Generation Agency (PPGA). In addition to HU, participants in PPGA include Municipal Energy Agency of Nebraska, Heartland Consumers Power District, Grand Island Utilities, and Nebraska City Utilities.

HU is the Operating Agent for WEC 2, which adjoins WEC 1. The 81 employees of WEC 1 also staff WEC 2, which has no actual employees. Each participant shares in the cost of operation and receives a share of the MW output of the facility. HU entered into agreements with Heartland Consumers Power District and Municipal Energy Agency of Nebraska to accept partial assignment of HU's MW share, which ended April 30, 2018. See Note 14 for additional information.



CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

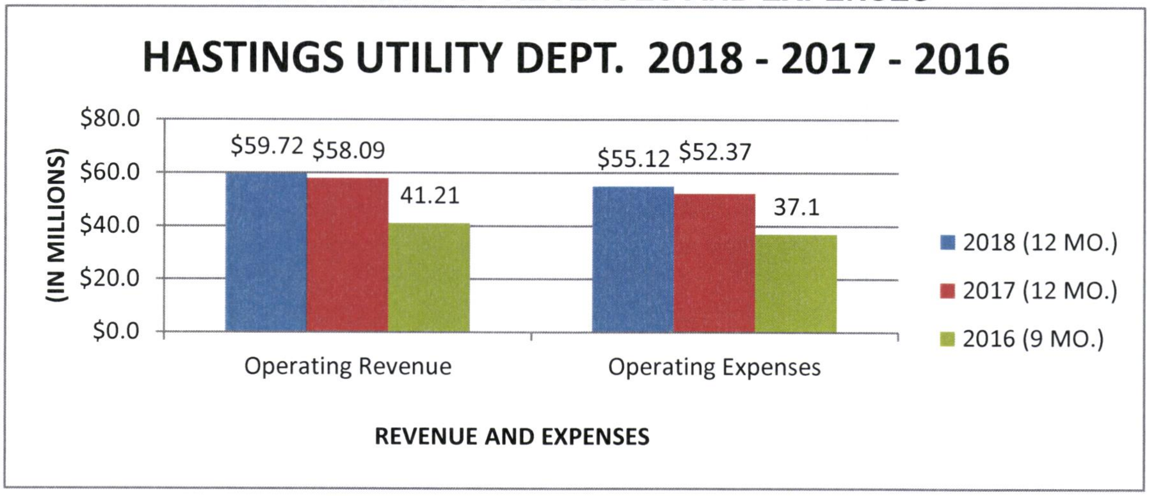
MANAGEMENT'S DISCUSSION & ANALYSIS
September 30, 2018 and 2017

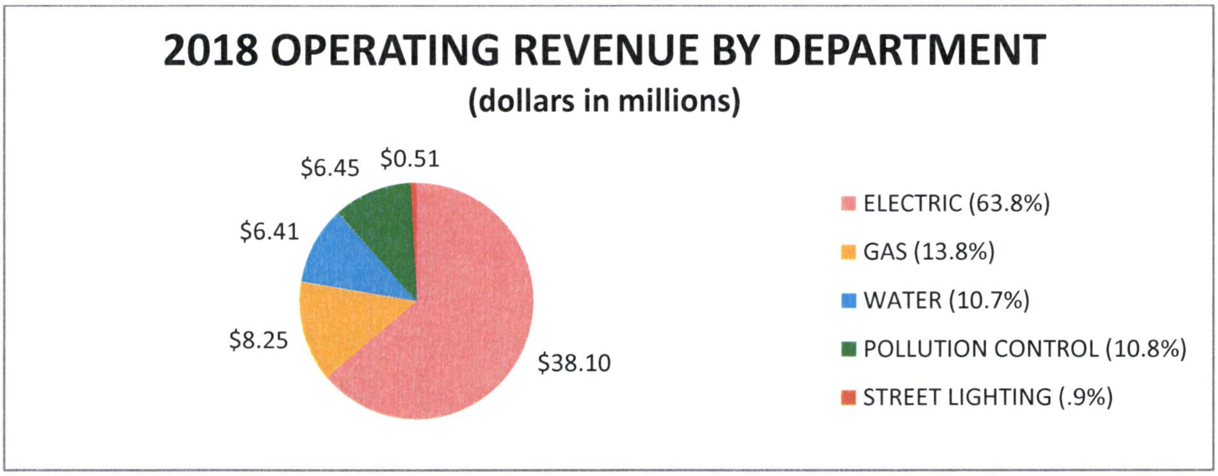
REVENUES AND EXPENSES

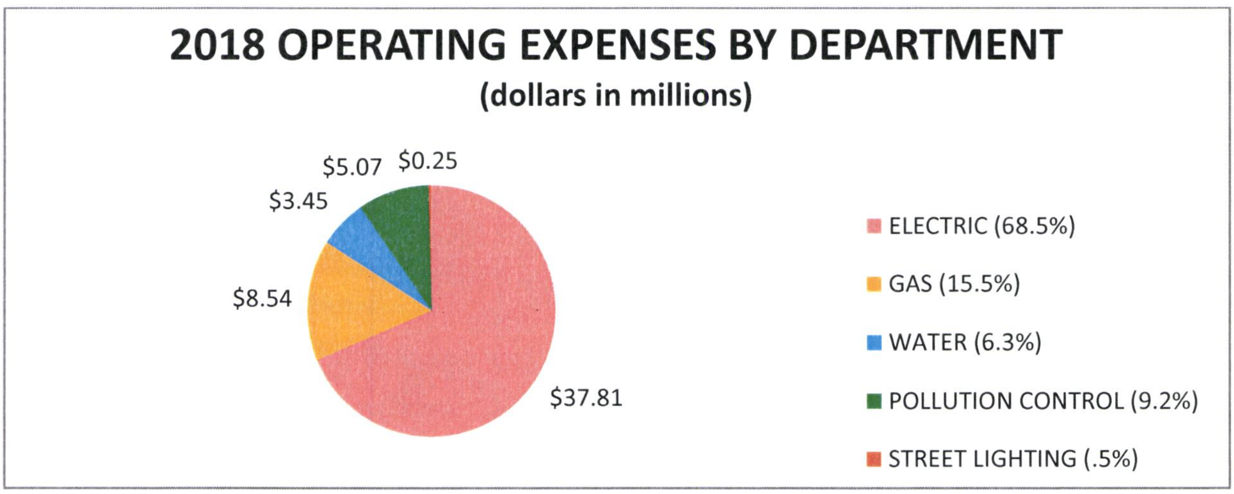
Summary Results of Operations (dollars in millions)
Note: 2018 and 2017 were 12 month fiscal years; 2016 was a 9 month fiscal year.

	2018	2017	2016
Revenues:			
Operating Revenues	$ 59.72	$ 58.09	$41.21
Non-Operating Revenues	13.70	12.81	8.45
Total Revenues	73.42	70.90	49.66
Expenses:			
Operating Expenses	55.12	52.37	37.10
Transfers to City	3.44	3.33	2.39
Non-Operating Expenses	12.05	11.31	7.58
Total Expenses	70.61	67.01	47.07
Net Income (loss) before contrib.	2.81	3.89	2.59
Capital Contributions	1.70	4.47	.62
Change in Net Position	4.51	8.36	3.21
Net position - beginning	211.63	203.27	200.06
Net position - ending	$216.14	$211.63	$203.27

COMPARISON OF REVENUES AND EXPENSES





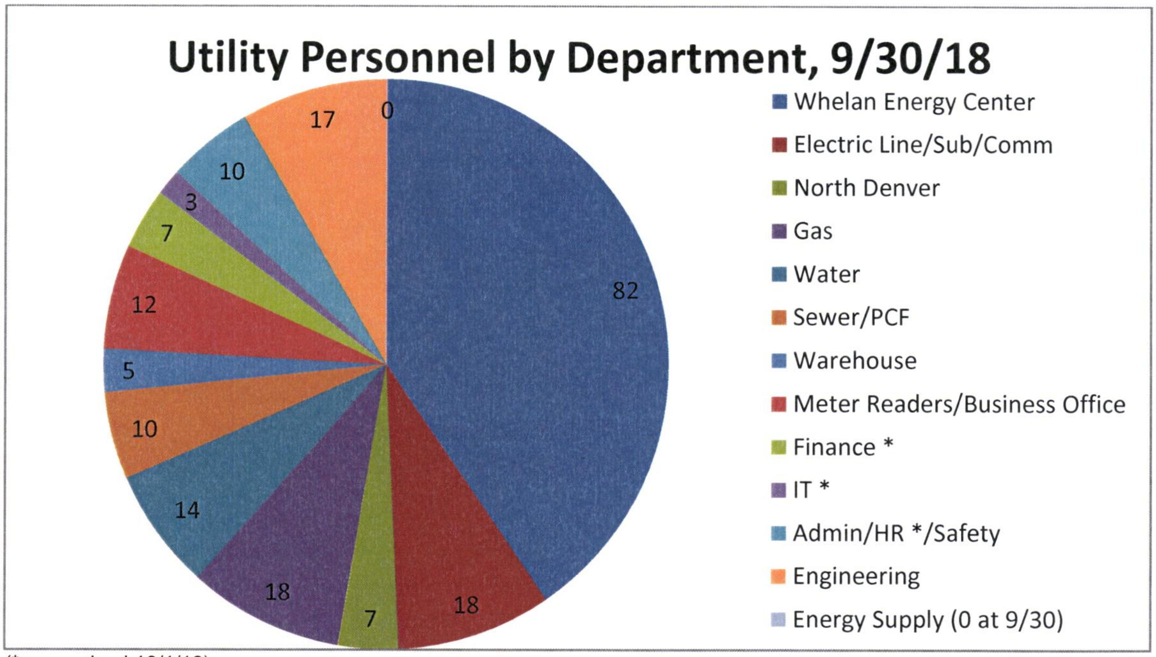


TRANSFERS TO THE CITY

Transfers to the City of Hastings are a huge benefit of local ownership of the utility system. Since HU is a part of the City of Hastings, it does not pay any property taxes, as would be the case if the system were privately owned. Therefore, it has been a longstanding practice of HU to transfer revenues to the City's general fund. The transfers ensure that the other essential service areas provided by the City do not suffer as a result of public ownership of HU. Factors that drive an increase or decrease in transfer payments include the levels of utility service used by HU's customer base.

PERSONNEL

At September 30, 2018, Utility employees totaled 203, which included 1 temporary position. As of October 1, 2018, due to reorganizing the department structure under the City Administrator, the Human Resources, Information Technology and Finance groups for the City and Utility were merged into separate City departments to provide these services for the combined organization. These changes will result in a reduction of Utility employees to approximately 190 as these functions became the City's responsibility. Retirements and organization changes resulted in turnover of the personnel in the Utility Marketing and Energy Supply Department. The responsibility for the Pollution Control Facility which provides wastewater treatment for the sewer system was transferred from the Director of Operations to the Director of Electric Production. The following chart shows the personnel count at September 30, 2018, along with notation of those being merged in to separate departments at October 1, 2018.



(*reorganized 10/1/18)

MISC. REVENUES AND EXPENSES

As a whole, non-operating income increased $0.89M, while non-operating expenses increased $0.74M. Non-operating revenues include interest income, agreement income, coal sales, jobbing reimbursements, reimbursement for services provided to PPGA, and miscellaneous income. Non-operating expenses include interest expense, cost of coal, jobbing and services to PPGA (see note 13).

CAPITAL ASSETS

A major philosophy of HU's approach to delivering its services is staying ahead of the "reliability curve". Delivery networks and facilities are constantly evaluated to determine if they are capable of supplying needed services now and into the future, resulting in extensive capital additions in the past years. Total utility plant in service increased from $326.91M in 2017 to $332.10 in 2018, a difference of $5.19M. After depreciation and including construction in progress, net utility plant increased from $157.41M in 2017 to $159.92M in 2018, an increase of $2.51M.

For 2018, some of the additions in the electric department include:

- Plant additions totaling $3.4M, including the replacement of WEC switchgear, an emergency generator at NDS, and other projects
- Rural and city distribution additions totaling $1.3M
- A reel trailer and infrared camera for line & sub/metering
- Total electric department capital costs were just under $5M, including the allocation of administrative capital additions, and contributions in the amount of $.29M

In the gas department, distribution additions totaling just over $.6M were made.

Water department addition totals netted at just over $3.5M and included the following along with administrative allocations, and contributions totaling $1.46M

- Plant additions of $3.7M included expenses relating to the N. Baltimore reverse osmosis treatment facility, new well 36 at 12th St & Baltimore Ave, and Phase 2 ASR injection wells & monitoring well system
- Transmission and distribution projects totaled $1M.

Pollution Control/Sewer additions were just under $.4M, and included sewer main additions, work on the bio-solids lagoon and maintenance software for PCF.

Street lighting capital costs totaled $.50M and continued the conversion of existing street lighting to LED.

In the administrative department, additions of $.29M included misc. equipment, payments of approx. $180,000 for the new ERP software and concrete for outside storage at the warehouse.

LONG-TERM DEBT

Total long-term debt decreased from $25.5M to $22.9M.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of HU's primary government finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Hastings, Manager, Utilities, 1228 North Denver Avenue, Hastings, NE 68901.

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

STATEMENTS OF NET POSITION
September 30,

ASSETS	ELECTRIC SYSTEM 2018	ELECTRIC SYSTEM 2017	COMBINED SYSTEM 2018	COMBINED SYSTEM 2017	TOTAL 2018	TOTAL 2017
Current assets:						
Cash and cash equivalents	$ 20,125,206	$ 17,412,867	$ 30,421,660	$ 30,220,917	$ 50,546,866	$ 47,633,784
Investments	5,773,027	5,743,745	2,323,384	2,303,322	8,096,411	8,047,067
Accounts receivables	6,687,727	6,660,553	2,629,860	2,450,001	9,317,587	9,110,554
Intercompany receivable	--	--	2,195,413	1,039,598	2,195,413	1,039,598
Due from City of Hastings	--	--	900,852	900,852	900,852	900,852
Inventories	4,076,659	4,868,585	1,877,509	2,012,224	5,954,168	6,880,809
Prepaid expenses		145,710	--	--	--	145,710
Total current assets	36,662,619	34,831,460	40,348,678	38,926,914	77,011,297	73,758,374
Noncurrent assets:						
Restricted Cash and cash equivalents	1,038,349	1,024,676	1,358,869	1,348,620	2,397,218	2,373,296
Restricted Investments	4,572,272	7,765,810	1,804,000	1,804,000	6,376,272	9,569,810
Loan to Street Lighting	--	--	1,100,000	900,000	1,100,000	900,000
Deferred charges	94,410	144,312	34,955	2,750	129,365	147,062
Capital Assets:						
Construction in progress	5,100,744	2,293,437	9,961,597	6,407,166	15,062,341	8,700,603
Electric	186,439,808	184,571,727	--	--	186,439,808	184,571,727
Gas	--	--	34,062,039	33,717,056	34,062,039	33,717,056
Water	--	--	43,449,598	40,947,707	43,449,598	40,947,707
Pollution control	--	--	65,755,798	65,265,044	65,755,798	65,265,044
Street Lighting	--	--	1,633,631	1,632,719	1,633,631	1,632,719
Administrative	--	--	755,257	771,321	755,257	771,321
Less accumulated depreciation	(119,823,008)	(114,847,026)	(67,414,003)	(63,347,355)	(187,237,011)	(178,194,381)
sub-total	71,717,544	72,018,138	88,203,917	85,393,658	159,921,461	157,411,796
Non-utility plant	15,866,333	15,866,333	--	--	15,866,333	15,866,333
Less accumulated depreciation	(5,472,435)	(4,779,663)	--	--	(5,472,435)	(4,779,663)
Net capital assets	82,111,442	83,104,808	88,203,917	85,393,658	170,315,359	168,498,466
Total noncurrent assets	87,816,473	92,039,606	92,501,741	89,449,028	180,318,214	181,488,634
Total assets	124,479,092	126,871,066	132,850,419	128,375,942	257,329,511	255,247,008
LIABILITIES						
Current Liabilities						
Accounts payable	6,204,699	6,063,076	2,433,524	3,603,208	8,638,223	9,666,284
Intercompany payable	2,195,413	1,039,598	--	--	2,195,413	1,039,598
Interest payable	38,145	89,640	279,923	283,564	318,068	373,204
Customer deposits	--	--	399,810	338,160	399,810	338,160
Health insurance claims	--	--	369,475	327,988	369,475	327,988
Current portion of long-term obligations	4,020,000	4,120,000	1,337,436	1,190,000	5,357,436	5,310,000
Total current liabilities	12,458,257	11,312,314	4,820,168	5,742,920	17,278,425	17,055,234
Noncurrent liabilities						
Street Lighting Loan	--	--	1,100,000	900,000	1,100,000	900,000
Compensated Absences	1,636,909	1,561,482	1,779,207	1,814,389	3,416,116	3,375,871
Noncurrent portion of long-term obligations	--	4,020,000	17,583,694	16,140,000	17,583,694	20,160,000
Other	1,223,808	1,191,058	280,280	567,564	1,504,088	1,758,622
Advances - refundable	--	--	442	442	442	442
Total noncurrent liabilities	2,860,717	6,772,540	20,743,623	19,422,395	23,604,340	26,194,935
Total liabilities	15,318,974	18,084,854	25,563,791	25,165,315	40,882,765	43,250,169
DEFERRED INFLOWS OF RESOURCES						
Unamortized bond discount	2,301	29,120	318,000	392,669	320,301	421,789
Deferral from advanced refunding	(7,080)	(44,959)	(6,646)	(10,067)	(13,726)	(55,026)
Total deferred inflows of resources	(4,779)	(15,839)	311,354	382,602	306,575	366,763
NET POSITION						
Net investment in capital assets	66,572,925	62,847,231	68,726,108	67,115,800	135,299,033	129,963,031
Restricted	4,572,272	7,793,771	3,162,869	3,152,620	7,735,141	10,946,391
Unrestricted	38,019,700	38,161,049	35,086,297	32,559,605	73,105,997	70,720,654
Total Net Position	$ 109,164,897	$ 108,802,051	$ 106,975,274	$ 102,828,025	$ 216,140,171	$ 211,630,076

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	--- ELECTRIC SYSTEM ---		--- COMBINED SYSTEM ---		-------- TOTAL --------	
	2018	2017	2018	2017	2018	2017
Operating revenue	$ 38,105,121	$ 37,788,365	$ 21,613,036	$ 20,304,189	$ 59,718,157	$ 58,092,554
Operating expenses	(32,878,473)	(30,379,881)	(13,321,019)	(13,380,767)	(46,199,492)	(43,760,648)
Operating income before depreciation	5,226,648	7,408,484	8,292,017	6,923,422	13,518,665	14,331,906
Less Depreciation	(4,932,078)	(4,867,008)	(3,989,922)	(3,739,476)	(8,922,000)	(8,606,484)
Operating income	294,570	2,541,476	4,302,095	3,183,946	35,086,297	5,725,422
Add other income	12,634,066	12,493,486	1,070,056	316,926	13,704,122	12,810,412
Capital contributions	28,988	214,651	1,672,236	4,256,043	1,701,224	4,470,694
Deduct other expenses	(10,460,891)	(10,648,274)	(1,589,000)	(665,121)	(12,049,891)	(11,313,395)
Transfers to the City	(2,133,887)	(2,116,148)	(1,308,138)	(1,213,597)	(3,442,025)	(3,329,745)
Change in net position	362,846	2,485,191	4,147,249	5,878,197	4,510,095	8,363,388
Net Position - beginning	108,802,051	106,316,860	102,828,025	96,949,828	211,630,076	203,266,688
Net Position - ending	$ 109,164,897	$ 108,802,051	$ 106,975,274	$102,828,025	$ 216,140,171	$ 211,630,076

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

STATEMENTS OF CASH FLOWS
For the Year Ended September 30, 2018

	Electric System	Combined System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 50,404,044	$ 22,472,038	$ 72,876,082
Payments to suppliers	(28,758,681)	(12,084,537)	(40,843,218)
Payments to employees	(11,090,385)	(4,431,743)	(15,522,128)
Net cash provided by operating activities	10,554,978	5,955,758	16,510,736
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to the City of Hastings	(2,133,887)	(1,308,138)	(3,442,025)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES			
Capital contributions	28,988	1,672,236	1,701,224
Grants receivable	--	(123,305)	(123,305)
Purchase of capital assets	(4,820,713)	(6,994,509)	35,086,297
Sale of capital assets	--	11,323	11,323
Principal paid on capital debt	(4,120,000)	(1,190,000)	(5,310,000)
Loan proceeds	--	2,781,130	2,781,130
Interest expense	(255,580)	(603,486)	(859,066)
Net cash used by capital and related financing activities	(9,167,305)	(4,446,611)	33,287,603
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (Increase) in investments	3,164,256	(20,062)	3,144,194
Interest income	307,970	30,045	338,015
Net cash used by investing activities	3,472,226	9,983	3,482,209
Net increase (decrease) in cash and cash equivalents	2,726,012	210,992	49,838,523
Balances - beginning of the year	18,437,543	31,569,537	50,007,080
Balances - end of the year	$ 21,163,555	$ 31,780,529	$ 99,845,603
Cash and cash equivalents consist of:			
Cash and cash equivalents	$ 20,125,206	$ 30,421,660	$ 50,546,866
Restricted cash and cash equivalents	1,038,349	1,358,869	2,397,218
	$ 21,163,555	$ 31,780,529	$ 52,944,084
SUPPLEMENTAL CASH FLOW INFORMATION			
Non-cash capital contributions	$ --	$ --	$ --
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 294,570	$ 4,302,095	$ 4,596,665
Participation and capacity agreements	868,709	--	868,709
Miscellaneous income, net of expenses	1,214,088	(34,965)	1,179,123
Adjusted operating income	2,377,367	4,267,130	6,644,497
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	5,814,029	4,184,249	9,998,278
Changes in assets and liabilities:			
Receivables, net	(29,570)	(1,409,119)	(1,438,689)
Inventories	791,926	134,715	926,641
Accounts and other payables	1,459,532	(898,750)	560,782
Accrued expenses	141,694	(322,467)	(180,773)
Net cash provided by operating activities	$ 10,554,978	$ 5,955,758	$ 16,510,736

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

STATEMENTS OF CASH FLOWS
For the Year Ended September 30, 2017

	Electric System	Combined System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 49,921,761	$ 20,691,897	$ 70,613,658
Payments to suppliers	(31,675,873)	(5,751,426)	(37,427,299)
Payments to employees	(10,023,585)	(4,268,424)	(14,292,009)
Net cash provided by operating activities	8,222,303	10,672,047	18,894,350
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to the City of Hastings	(2,116,148)	(1,213,597)	(3,329,745)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES			
Capital contributions	214,651	4,222,130	4,436,781
Grants receivable	--	(387,522)	(387,522)
Purchase of capital assets	(2,775,502)	(8,144,248)	35,086,297
Sale of capital assets	23,771	--	23,771
Principal paid on capital debt	(3,900,000)	(1,160,000)	(5,060,000)
Interest expense	(417,242)	(633,349)	(1,050,591)
Net cash used by capital and related financing activities	(6,854,322)	(6,102,989)	33,048,736
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in investments	(449,870)	(440,985)	(890,855)
Interest income	172,575	16,539	189,114
Net cash used by investing activities	(277,295)	(424,446)	(701,741)
Net increase (decrease) in cash and cash equivalents	(1,025,462)	2,931,015	47,911,600
Balances - beginning of the year	19,463,005	28,638,522	48,101,527
Balances - end of the year	$ 18,437,543	$ 31,569,537	$ 96,013,127
Cash and cash equivalents consist of:			
Cash and cash equivalents	$ 17,412,867	$ 30,220,917	$ 47,633,784
Restricted cash and cash equivalents	1,024,676	1,348,620	2,373,296
	$ 18,437,543	$ 31,569,537	$ 50,007,080
SUPPLEMENTAL CASH FLOW INFORMATION			
Non-cash capital contributions	$ --	$ 33,913	$ 33,913
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 2,541,476	$ 3,183,946	$ 5,725,422
Participation and capacity agreements	794,636	--	794,636
Miscellaneous income, net of expenses	1,258,556	177,094	1,435,650
Adjusted operating income	4,594,668	3,361,040	7,955,708
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	5,761,080	3,918,816	9,679,896
Changes in assets and liabilities:			
Receivables, net	(188,025)	2,455,251	2,267,226
Inventories	(96,504)	(8,211)	(104,715)
Accounts and other payables	(1,915,884)	836,062	(1,079,822)
Accrued expenses	66,968	109,089	176,057
Net cash provided by operating activities	$ 8,222,303	$ 10,672,047	$ 18,894,350

See Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization:

The City of Hastings, Nebraska (the "City") under the direction of the City Council, owns and operates electric, gas, water, pollution control/waste water treatment and street lighting utilities ("Utilities"). In accordance with the provisions of Ordinance Number 2622 of the City of Hastings, the Electric System is to be accounted for separately from other utility operations. Therefore, the accompanying financial statements have been prepared to reflect the financial position and results of operations and cash flows of the Electric System and Combined System (gas, water, pollution control/waste water treatment, and street lighting utilities) on a segregated as well as a combined basis. The Electric System follows the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC). Certain costs are shared by the Electric System and the Combined System. Joint administrative and general expenses are paid by the Combined System and the Electric System is billed for its portion on the basis of overhead studies. Total billings for these inter-system charges totaled $2,960,638 for the year ended September 30, 2018 and $2,938,907 for the year ended September 30, 2017.

Application of accounting pronouncements:

The Utilities applies all Governmental Accounting Standards Board (GASB) pronouncements.

Adoption of accounting principles (GASB #34):

The Utilities adopted the provisions of Governmental Accounting Standards Board (GASB) Statement #34.

The effect of implementing GASB #34 required the Utilities to record financial information on a full accrual basis, as displayed on the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position.

The financial statements include the following:

1) Segregation of assets that are restricted by third parties.

2) Net position is divided into three categories:

    a) Net investment in capital assets

    b) Restricted

    c) Unrestricted

Note 1. Organization and Significant Accounting Policies (Continued)

Valuation of capital assets:

The basis of the utility plant in service consists of a 1944 appraisal made by Black and Veatch, consulting engineers, for the electric and water systems, a 1954 appraisal made by Henningson, Durham and Richardson, Inc. for the pollution control/waste water treatment system and the book value of assets received in 1954, the time of consolidation for the gas system. Additions since these dates are at cost. In accordance with FERC requirements, contributions in aid of construction had been used to reduce the cost basis of fixed assets of the electric and gas systems through December 31, 2000. After January 1, 2001, the contributions in aid of construction are included in the statements of revenue and expenses, as directed by Governmental Accounting Standards Statement #33.

The Utilities uses a work order system of accounting for new construction. Under this system, the cost of a project is accumulated in a Construction Work in Progress Account. Upon completion of the project, the total cost is transferred to the appropriate Utility Plant in Service Account.

Depreciation, amortization, and maintenance:

The provision for depreciation is computed at an overall straight-line composite rate of approximately 3.0% for the years ended September 30, 2018 and September 30, 2017. Depreciation expense taken during the year ended September 30, 2018 was $9,998,278 and for the year ended September 30, 2017 was $9,679,896.

The Utilities charges maintenance and repairs, including the cost of minor renewals of property, to maintenance expenses. Replacements of property (except minor replacements) are charged to Utilities plant accounts. Upon retirement of property, the cost of property is removed from the plant accounts and charged to a reserve for depreciation, and the related salvage, net of removal costs, is credited thereto.

Revenue recognition:

Revenue is recorded on the basis of bills rendered on a cycle basis throughout the month. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption.

Inter-departmental sales:

Inter-departmental sales have not been eliminated on the total Utilities operating statements.

Investment securities:

Bond reserve securities are stated at amortized cost which does not differ substantially from market value. Most investment securities are carried at market value based on Level 1 evidence (investment trading prices on the open market).

Note 1. Organization and Significant Accounting Policies (Continued)

Inventories:

Inventories are valued at cost or weighted average cost.

Income taxes:

The Utilities is exempt from federal and state income taxes.

Uncollectible accounts:

The Utilities estimates that uncollectible accounts will be less than .10% of sales annually. An allowance for uncollectible accounts was set up at September 30, 2018 in the amount of $83,000 and recorded as an expense to the electric department.

Cash and cash equivalents:

For purposes of reporting cash flows, the Utilities considers all highly liquid investments and similar instruments purchased with original maturities of three months or less from the date of acquisition, to be cash and cash equivalents.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Rate Matters

Rates are set by the City Council.

Electric System billings include a fuel adjustment clause which provides for the inclusion in rates of the fluctuations in cost of fuel and purchased power over base amounts approximately two months after fuel is consumed and power purchased.

Electric rates were last increased by 5% on January 1, 2016.

Water rates increased by 12% on October 1, 2016, by 10% on October 1, 2017, and will increase by 5% on October 1, 2018.

Gas billings include a purchase gas adjustment factor which reflects changes in the price of wholesale natural gas approximately one month after the increase is effective to the Utilities.

Sewer rates increased by 8% on October 1, 2016 and 2017, and will increase by 10% on October 1, 2018.

Note 3. Segregated Funds and Special Cash Deposits

Electric System:

Under the terms of the revenue bond ordinance, all income and revenue of the Electric System may be used only for specified purposes as provided in the bond ordinance in the priority indicated by the order of the following:

1) Electric Revenue Fund

In each month there shall be reserved in the Electric Revenue Fund such amount as may be necessary to pay the operating expenses during the ensuing month, which amounts so reserved shall be used for and applied to such payments in such month or, to the extent not so applied in succeeding months.

2) Debt Service Account

Specific monthly deposits to the account are required in the amount of 1/12 of the principal of all bonds maturing on or before the following January 1, plus 1/6 of the interest becoming due on the next succeeding interest payment date on all outstanding bonds until the full amount of the net requirements have been accumulated in each fiscal year.

3) Reserve Account

There shall be deposited to the Reserve Account, an amount equal to the maximum amount required to be paid into the Debt Service Account from revenues in any fiscal year. The maximum amount, as computed, of $4,572,272 was on deposit at September 30, 2018 and September 30, 2017.

4) Capital Improvement Fund

There shall be deposited monthly into the Capital Improvement Fund an amount at least equal to 1/12 of 10% of the average annual operating revenues for the preceding three fiscal years after deducting therefrom "fuel" expense and the energy related components of "purchased power" expense. Amounts deposited in the fund shall be expended for replacements, enlargements, extensions, and betterments of the System, or if not so expended within two years of the date of deposit thereon, shall be used as soon as reasonably possible for the purchase or cancellation or redemption of bonds in advance of maturity. Capital Improvement Fund requirements were $2,458,047 for the year ended September 30, 3018 and $2,332,056 for the year ended September 30, 2017. Actual Capital Improvements made in the year ended September 30, 2018 were $4,820,713 and $2,775,502 in the year ended September 30, 2017.

Note 3. Segregated Funds and Special Cash Deposits, cont.

The Electric System also maintains the following special accounts:

1) <u>Insurance Fund</u>

A special electric insurance fund was established in 1986 in the amount of $500,000, increased to $1,000,000 in 1987, increased to $1,500,000 in 1988, increased to $2,000,000 in 1990 and increased to $2,010,000 in 1997 for the sole and exclusive purpose of insuring property which otherwise would have been insured under lower deductible amounts in the building and contents insurance policy and boiler and machine insurance policy. This electric insurance fund can be used only in the event of a loss in the electric department which would otherwise have been paid by an insurance carrier had there been no deductible or a deductible of a lesser amount and only with the approval of the City Council of the City of Hastings.

2) <u>Rate Stabilization Fund</u>

The Utilities established a rate stabilization fund in March of 1996. The funds above those needed to meet current reserve requirements as determined by the City Council will be accumulated and used to pay a portion of the costs of anticipated major capital facilities or as otherwise directed by the City Council.

3) <u>Closure/Post Closure Care Account</u>

In 2001, the Utilities 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 ash disposal area at the Whelan Energy Center. Monies are deposited into this account at a rate $2.50 per ton of ash put into the disposal area. The calculated amount of the Closure/Post Closure liability was $1,180,927 at September 30, 2018 and $1,139,293 at September 30, 2017. The amount on deposit in the Closure/Post Closure Care Account was $1,038,349 at September 30, 2018 and was $996,715 at September 30, 2017.

Combined System:

Under the terms of the revenue bond ordinance, the revenues and earnings of the Combined Utility System are pledged for the payment of principal and interest on the Series 2006 and 2012 bonds and the following special accounts are required:

1) Bond Payment Fund

Specific monthly deposits to the account are required in the amount of 1/6 of the next maturing semiannual interest payment, plus an amount equal to 1/12 of the next maturing principal payment.

2) Debt Service Reserve Fund

The Series 2006 bonds require that $450,389 be maintained in this fund. The Series 2012 bonds require that $1,353,500 be maintained in this fund. At

Note 3. Segregated Funds and Special Cash Deposits, cont.

September 30, 2018 and September 30, 2017, the required amounts were on deposit in this fund.

The Combined System maintains other special accounts for the following purposes:

1) Customer Deposits
To account for refundable customer security deposits.

2) Insurance Fund

A special combined insurance fund was established in 1986 in the amount of $250,000, increased to $500,000 in 1987, increased to $750,000 in 1988 and increased to $1,000,000 in 1990 for the sole and exclusive purpose of insuring property which otherwise would have been insured under lower deductible amounts in the building and contents insurance policy fund. This special combined insurance fund can be used only in the event of a loss in the gas, water or pollution control departments which would otherwise have been paid by an insurance carrier had there been no deductible or a deductible of a lesser amount and only with the approval of the City Council of the City of Hastings.

3) Rate Stabilization Fund

The Utilities established a rate stabilization fund in November of 1995. The funds above those needed to meet current reserve requirements as determined by the City Council will be accumulated and used to pay a portion of the costs of major capital facilities or as otherwise directed by the City Council.

Note 4. Long-Term Debt and Deferred Inflows of Resources

Long-term debt and deferred inflows of resources consists of the following:

CITY OF HASTINGS, NEBRASKA	2018	2017
UTILITY DEPARTMENT		
Revenue Bonds - 2011 Issue		
Serial Bonds:		
.7% - 3.796%, due 2012 - 2019	$4,020,000	$ 8,140,000
Unamortized Original Issue Discount	(535)	(2,658)
Unamortized Original Issue Premium	2,836	31,778
Unamortized Deferred Amount From Advanced Refunding	(7,080)	(44,959)
	4,015,221	8,124,161
Less current portion	(4,020,000)	(4,120,000)
Net long-term debt and deferred inflows of resources - Electric System	$ (4,779)	$ 4,004,161

Note 4. Long-Term Debt and Deferred Inflows of Resources,cont.

On April 25, 2011 the City of Hastings passed ordinance No. 4293 authorizing and providing for the issuance of Electric Utility Revenue Refunding Bonds, Series 2011. The bonds were issued for $24,960,000, with an average interest rate of 3.78% to advance refund $26,365,000 of outstanding 2001 Electric Utility Revenue Refunding Bonds with an average interest rate of 5.42%. The net proceeds of $25,663,571 (after receipt of $1,031,485 Original Issue Premium, less $30,932 Original Issue Discount, less $200,000 underwriting discount) plus $909,848 transferred from the Electric Debt Service Account and $340,852 transferred from the Electric Debt Reserve Fund were deposited with the 2001 bond Trustee and used to pay off the bonds and accrued interest on the bonds redeemed on June 1, 2011.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $859,594. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective interest method. The Utilities completed the advance refunding to reduce its total debt service payments over the next 7 years by $2,578,240 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $3,117,395.

COMBINED SYSTEM	2018	2017
Revenue Bonds - 2006 Issue:		
Serial Bonds:		
3.55% - 4.50%, due 2007-2021	$ 1,300,000	$ 1,600,000
Term Bonds:		
4.50% due 2022-2026	2,010,000	2,010,000
Unamortized Original Issue Premium	703	915
Unamortized Original Issue Discount	(11,702)	(13,729)
	3,299,001	3,597,186
Revenue Bonds - 2012 Issue:		
Serial Bonds:		
1.00% - 4.00%, due 2013-2026	7,260,000	8,150,000
Term Bonds:		
3.250% due 2027-2032	3,960,000	3,960,000
4.000% due 2028-2032	1,610,000	1,610,000
Unamortized Original Issue Premium	394,971	475,067
Unamortized Original Issue Discount	(65,972)	(69,584)
Unamortized Amount Deferred from Refunding	(6,646)	(10,067)
	13,152,353	14,115,416
SRF Note Payable: 1.25% plus 1.0% admin fees due 2018-2038	2,781,130	14,115,416
Total Combined System	19,232,484	17,712,602
Less current portion	(1,337,436)	(1,190,000)
Net long-term debt and deferred in flows of resources - Combined System	$ 17,895,048	$ 16,522,602

Note 4. Long-Term Debt and Deferred Inflows of Resources (Continued)

The Series 2006 Combined Utility Revenue Refunding Bonds are subject to redemption prior to maturing anytime on or after April 15, 2016. The Series 2012 Combined Utility Revenue Bonds maturing on or after October 15, 2023 are subject to redemption prior to maturing anytime on or after October 15, 2022.

On April 24, 2006 the City of Hastings passed ordinance No. 4080 authorizing and directing the issuance of Combined Utility Revenue Bonds, Series 2006. The bonds were issued in the principal amount of $6,000,000, with an average interest rate of 4.33%. The bonds were issued for the purpose of paying for a portion of the cost of certain capital improvements to the City's combined utility system. The net proceeds of $5,834,415 ($6,000,000 less original issue discount in the amount of $31,350, bond insurance premium of $62,000, underwriters discount of $75,000, plus original issue premium of $2,765) was transferred to the Construction fund.

On August 13, 2012 the City of Hastings passed ordinance No. 4327 authorizing and directing the issuance of Combined Utility Revenue Bonds, Series 2012. The bonds were issued in the principal amount of $16,535,000, with an average interest rate of 3.40%. The bonds were issued for the purpose of advance refunding $2,715,000 of outstanding 2001 Combined Utility Revenue Bonds and to pay for a portion of the cost of certain capital improvements to the Combined Utility System of the City. Of the net proceeds of $17,249,334 (after receipt of $965,735 Original Issue Premium, less $86,051 Original Issue Discount, less $165,350 underwriting discount) plus $222,795 transferred from the Combined Debt Service Account and $353,000 transferred from the Combined Bond Reserve Fund, $2,768,808 was deposited with the 2001 Bond Trustee and used to pay off the bonds and accrued interest on the bonds redeemed on September 13, 2012, $1,353,500 was transferred to the Combined Bond Reserve Fund and $13,702,821 was transferred to the Combined Construction Fund.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $35,200. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the effective interest method. The Utilities completed the advance refunding to reduce its total debt service payments over the next nine years by $332,213 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $504,318.

Nebraska Department of Environmental Quality Loan

On September 11, 2017, the City of Hastings entered into a loan agreement with the Nebraska Department of Environmental Quality (NDEQ) to provide for financing of up to $7,000,000 of construction costs related to the ASR project. The interest rate during the construction period is one half of a percent (0.5%), with the rate increasing to one and one quarter percent (1.25%) after the initiation of operations. In addition, a one percent (1%) per annum administrative fee is to be paid to the NDEQ, with the fee waived for the first year. The term of the loan is 20 years. As of September 30, 2018, loan proceeds of $2,781,130 have been received.

Note 4. Long-Term Debt and Deferred Inflows of Resources (Continued)

Maturity requirements on long-term debt are as follows:

Bonds

	Electric Bonds			
Year Ending	Principal	Interest		Total
2019	$ 4,020,000	$ 76,290		$ 4,096,290

	Combined Bonds and SRF Note			
Year Ending	Principal	Interest	SRF Admin Fee	Total
2019	$ 1,337,436	$ 607,938	$ 20,942	$ 1,966,316
2020	1,374,749	574,020	26,276	1,975,045
20201	1,271,313	532,968	25,024	1,829,305
2022	1,412,897	481,422	23,758	1,918,077
2023	1,179,501	431,331	22,475	1,633,307
2024-2028	6,127,272	1,457,848	92,558	7,677,678
2029-2033	5,455,490	500,967	57,983	6,014,440
2034-2038	762,472	26,482	21,186	810,140
	$18,921,130	$4,612,976	$290,202	$23,824,308

Note 5. Pension Plan, Sick Leave and Deferred Compensation

Pension Plan:

All employees of the Utilities meeting certain age and length of service requirements are members of a contributory pension plan administered by the City. Total pension expense to the Utilities was $1,112,979 for the year ended September 30, 2018 and $1,102,117 for the year ended September 30, 2017. The pension plan is a defined contribution plan and all funding is current. Employee contributions are matched by the City at 4% up to $20,000 of wages and then 8% thereafter. The threshold will change to $25,000 beginning with the year 2019.

Sick Leave:

The Utilities adopted a resolution on November 2, 1990, effective January 1, 1991, allowing utility employees who have been employed for a period of not less than ten continuous years by the Utilities to receive accumulated medical leave upon termination. The amount of compensation is to be 25% of accumulated medical leave. This rate remains in effect for those employees with less than 20 years of service. As of December 28, 2014, this rate was changed to 50% of unused medical

Note 5 Pension Plan, Sick Leave and Deferred Compensation, cont.

leave for employees with 20 continuous years of service or more. Accrued sick leave for the year ended September 30, 2018 decreased by $129,436 and for the year ended September 30, 2017 decreased by $10,998.

The Utilities also adopted a policy to pay 25% of unused sick pay in excess of 120 days on an annual basis. This policy became effective January 1, 1991. Effective January 1, 2009, the policy was changed to pay 25% of unused sick leave in excess of 132.5 days.

Deferred Compensation:

The Utilities offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Utilities employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. No contributions are made to the plan by the Utilities.

Note 6. Long-Term Contracts

MEAN Participation Agreement:

As of February 23, 1983, the Utilities entered into a Participation Power Sales Agreement with the Municipal Energy Agency of Nebraska (MEAN). MEAN may purchase up to 6.95% of the power generated by the Whelan Energy Center #1 (WEC #1) for the longer of: 1) the time until the final maturity date of the debts to construct, improve or add to the component facilities of WEC #1 or, 2) the City removes WEC #1 and the part of the City's transmission system in which MEAN participates. MEAN will pay for all fuel related costs of generating the power it uses plus 6.95% of: 1) principal and interest costs of the bonded debt attributable to WEC #1, 2) the capital improvements to WEC #1 and related transmission systems, 3) fixed costs of operating and maintaining WEC #1 and the related transmission system, including taxes, 4) direct and allocated administrative and general costs associated with WEC #1, and 5) costs to prevent or correct unusual loss or damage to the WEC #1 system which are not insured or recovered from a third party.

City of Superior Agreement:

On February 16, 2017, the Utilities entered into an agreement with the City of Superior to provide electric capacity and energy starting January 1, 2018 through December 31, 2022. The capacity quantity begins at 2,300 KW in 2018 and increases over the term of the agreement to 6,800 KW in 2022.

Coal Supply Agreements:

On December 15, 2006, the Utilities entered into an agreement with AGP Corn Processing, Inc. (AGP) to supply coal to a truck loadout facility built and paid for by AGP on the Whelan Energy Center property. Upon completion of the truck loadout facility, the facility was given to the Utilities, with AGP being responsible for the costs

Note 6. Long-Term Contracts, cont.

to operate and maintain the facility. The agreement is for a sixteen year period beginning on April 1, 2007. Coal deliveries commenced in August of 2008. AGP is obligated to buy annually not less than 100,000 tons and not to exceed 160,000 tons of coal from the Utilities. As a result of an agreement with AGP entered into on December 23, 2013, the minimum annual coal purchase requirement was reduced to 70,000 tons.

On July 27, 2010, the Utilities entered into an agreement with Chief Ethanol Fuels Inc. (Chief) to supply a minimum of 35,000 tons of coal a year. This coal is to be delivered to the Truck Load Out facility located at WEC. The term of the agreement runs from September 1, 2010 to December 31, 2015, and year to year thereafter. On July 14, 2016, an amendment was made to the agreement reducing the minimum annual coal purchase to 25,000 tons.

Coal Contracts:

Peabody COALSALES, LLC

On October 1, 2016, the Utilities entered into an agreement with Peabody for the purchase of coal for the period beginning January 1, 2017 through December 31, 2018. The agreement included the purchase of an additional 100,000 tons of coal in 2016, and 600,000 tons in 2017 and 2018. On December 19, 2016, the agreement was amended to increase the 2017 volume to 647,000 tons. On July 11, 2017 an amendment was executed for the purchase of an additional 350,000 tons and as of September 30, 2017 approximately 82,500 tons remained to be purchased in calendar year 2017. On July 11, 2018 the Utilities entered into an agreement with Peabody for the purchase of coal for the period July 11, 2018 through December 31, 2021. The agreement provides up to 400,000 tons in 2018 and a minimum of 600,000 tons and a maximum of 1,000,000 tons each of the calendar years beginning January 1, 2019 through December 31, 2021. Peabody has first right to supply any excess over the maximum under the terms of the agreement.

The Burlington Northern and Santa Fe Railway Company

On September 25, 2006, the Utilities entered into an agreement with The BNSF Railway Company for the transportation of coal for the period of January 1, 2007 through December 31, 2007. The agreement has a minimum annual tonnage requirement of 250,000 tons. This agreement was extended through December 31, 2008. This agreement was further extended through December 31, 2009. This agreement was extended through December 31, 2010 with the minimum volume to be 100% of coal received at the plant site during 2010. The agreement was extended through December 31, 2011. The agreement was further extended through December 31, 2013. On March 8, 2013, the agreement was extended through

Note 6. Long-Term Contracts (Continued)

December 31, 2018 and set a minimum annual tonnage requirement of 600,000 tons. On February 21, 2018 the Utilities entered into an agreement with BNSF for transportation of coal for the period of February 22, 2018 through December 31, 2021. The agreement has a minimum annual tonnage requirement of 600,000 tons.

Natural Gas Contracts:

Central Plains Energy Project

On September 25, 2006, the Utilities executed an Interlocal Agreement to enter into the joint entity known as the Central Plains Energy Project (CPEP). CPEP was created between and among public agencies to achieve savings and enhanced reliability, efficiency and supply security through the joint purchase of natural gas and the arrangement of joint services on behalf of its participant members and certain other public agencies. CPEP's members include the Metropolitan Utilities District in Omaha, Nebraska, the Municipal Gas Utility of the City of Cedar Falls, Iowa and the City of Hastings.

On July 1, 2009, the Utilities entered into a thirty (30) year Gas Supply Agreement (GSA) with CPEP Project No. 2 for approximately 25% of the Utilities ten (10) year historical average annual natural gas consumption. To provide the natural gas supply for the GSA, CPEP entered into a thirty (30) year term Prepaid Natural Gas Purchase and Sale Agreement (Agreement) with the Royal Bank of Canada (RBC) for delivery of natural gas to CPEP.

On January 30, 2014, RBC filed a Complaint in the United States District Court for the District of Nebraska (Court) seeking a declaration that RBC be entitled to terminate the Agreement with CPEP as a result of changes in applicable banking and regulatory authorities, which RBC claimed to have a material, adverse effect on the transaction. CPEP disagreed that the regulatory changes RBC cited would result in a material, adverse effect on the transaction, and filed an Answer and Counterclaim with the Court asking for damages from RBC as a result of anticipatory breach of the Agreement.

Prior to the matter being heard by the Court, RBC and CPEP negotiated a settlement where RBC would provide the funds necessary and redeem all outstanding bonds associated with the 2009 issue; issuance of new bonds to effectuate a five (5) year term fixed discount Prepaid Transaction between RBC and CPEP; and certain cash payments to CPEP. CPEP in turn entered into a new GSA with the Utilities for a five (5) term that shall run from November 1, 2014 through October 31, 2019, and provides for delivery of the same monthly volumes received previously. Prior to the end of the five year term RBC and CPEP may negotiate to extend the Agreement for a mutually agreeable term and fixed discount rate. If these negotiations are unsuccessful, the Agreement will terminate effective October 31, 2019. In the event an extension of the Agreement between RBC and CPEP is negotiated, the Utilities, Note 6. Long Term Contracts, cont.

in its sole discretion, has the option of whether it wishes to extend the term of its GSA with CPEP, incorporating the new term and discount rate, or cease taking deliveries effective October 31, 2019.

On November 16, 2018 the Utilities entered into a thirty (30) year Gas Supply Agreement (GSA) with CPEP Project No. 4 for approximately 25% of the Utilities ten (10) year historical average annual natural gas consumption. To provide the natural gas supply for the GSA, CPEP entered into a thirty (30) year term Prepaid Natural Gas Purchase and Sale Agreement (Agreement) with J. Aron & Company LLC, a New York limited liability company ("J. Aron") and a wholly-owned subsidiary of The Goldman Sachs Group, Inc., for the delivery of natural gas to CPEP.

Trailblazer Pipeline Company LLC

The Utilities signed a firm natural gas transportation contract running through September 30, 2015 with the Trailblazer Pipeline Company LLC (Trailblazer). The Maximum Daily Quantity (MDQ) under the contract is 14,840 Dth/day. As a result of a 2010 rate settlement with Trailblazer, the Utilities had a unilateral one-time right to roll over its contract for a term of between one and 10 years. Hastings Utilities had the ability to exercise its Contractual Rollover Right at any time during the term of the original contract, but not later than six months prior to the expiration. During 2015, the contract was extended through September 30, 2025.

Tall Grass Interstate Gas Transmission LLC

The Utilities also has a long term firm natural gas transportation contract with Tall Grass Interstate Gas Transmission LLC. The contract originated on October 1, 1993 with the current contract term running through August 31, 2021. The Maximum Daily Quantity (MDQ) is 16,000 Dth/day.

Power Purchase Agreement:

CCC-Hastings Renewable Energy, LLC

On August 31, 2016, the Utilities executed a Power Purchase Agreement (PPA) with CCC-Hastings Renewable Energy, LLC (HRE), to purchase the entire output of a 1.7 MW General Electric wind turbine. The PPA has a 25 year term with an option for Utilities to extend thereafter. The wind turbine is located on property owned by the Central Community College and is interconnected to the Utilities' electric distribution system. Per the terms of the PPA, HRE was responsible for obtaining all required permits, turbine construction oversight and payment of all costs to construct the turbine and interconnection facilities. HRE will also own, operate and have cost responsibility to maintain the wind turbine and interconnection facilities going forward. The wind turbine began commercial operation on December 29, 2016.

Note 6. Long-Term Contracts, (Continued)

Wind Power Purchase Agreement:

Central Community College

On August 31, 2016, the Utilities executed a Wind Power Purchase Agreement (WPPA) with Central Community College (CCC) which will provide for the Utilities to sell CCC energy purchased by the Utilities from a wind turbine owned by CCC-Hastings Renewable Energy, LLC (HRE). The intent of the WPPA is for the Utilities to provide up to 100% of CCC's energy needs at its Hastings' campus with energy produced by the wind turbine. In addition, CCC will receive a portion of the Renewable Energy Credits generated by the wind turbine. The WPPA is to remain in force for a term that coincides with the Power Purchase Agreement between the Utilities and HRE, which is currently 25 years.

Note 7. Deposits/Investments

Credit Risk:

The Utilities policy limits investments to those type investments allowed by State Statute. Those items include: Certificates of deposits, where institutions have adequately pledged assets for any funds on deposit in excess of Federal Depository Insurance limits; Bonds and debentures issued by any of the twelve federal land banks, the twelve intermediate banks, or the thirteen banks for cooperatives under the supervision of the Farm Credit Administration, or in interest bearing bonds or the obligations of the United States.

Concentration of Credit Risk:

The Utilities investment policies limits investments to those institutions that have adequately pledged assets to cover any amounts on deposit in excess of Federal Depository Insurance and to investments that are backed by the federal government, as listed in State Statute.

Interest Rates Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Utilities investment policies includes reviewing that market conditions and investment securities are analyzed to determine the maximum yield to be obtained and to minimize the impact of rising interest rates.

Note 7. Deposits/Investments (Continued)

	INVESTMENT MATURITIES (IN YEARS)				
	< 1	1-5	5-10	10+	TOTAL
US Treasury Bills	$ 953,030	$ --	$--	$ --	$ 953,030
US Treasury Notes	4,572,272	-	--	--	4,572,272
CD's	3,513,500	5,265,500	--	--	8,779,000
GNMA	--	33,541	--	134,840	168,381
	$9,038,802	$5,299,041	$--	$134,840	$14,472,683

Details of cash and cash equivalents and investments as presented in the balance sheet are as follows:

Cash and investments consisted of the following:

	September 30, 2018		September 30, 2017	
	Cash & Cash Equivalents	Investments	Cash & Cash Equivalents	Investments
Electric System:				
Rate Stabilization	$ 1,262,504	$ 1,263,027	$ 1,302,538	$ 1,233,745
Revenue Fund	18,862,702	2,500,000	16,110,329	2,500,000
Insurance Fund	--	2,010,000	--	2,010,000
	$ 20,125,206	$ 5,773,027	$ 17,412,867	$ 5,743,745
Combined System:				
Economic Development Fund	$ 1,513,000	$ --	$ 2,488,000	$ --
Rate Stabilization	11,061,704	608,384	10,788,045	1,103,322
Health Ins Claims	4,566,509	--	4,614,919	--
Revenue Fund	2,070,110	500,000	272,458	--
Insurance Fund	--	1,000,000	-	1,000,000
Customer Deposits	184,810	215,000	138,160	200,000
Petty Cash	650	--	650	--
General Operating	9,699,877	--	10,593,685	--
Payroll Fund	1,325,000	--	1,325,000	--
	$ 30,421,660	$ 2,323,384	$ 30,220,917	$ 2,303,322

Note 7. Deposits/Investments (Continued)

Restricted assets consisted of the following:

	September 30, 2018		September 30, 2017	
	Cash & Cash Equivalents	Investments	Cash & Cash Equivalents	Investments
Electric System:				
Reserve Account	$ --	$ 4,572,272	$ 25,694	$ 4,584,989
Ash Disposal Closure/ Post-Closure Care	1,038,349	--	996,715	--
Debt Service Account	--	--	2,267	3,180,821
	$ 1,038,349	$ 4,572,272	$ 1,024,676	$ 7,765,810
Combined System:				
Debt Service Res Fund	$ --	$ 1,804,000	$ --	$ 1,804,000
Bond Payment Fund	1,358,869	--	1,348,620	--
	$ 1,358,869	$ 1,804,000	$ 1,348,620	$ 1,804,000

Note 7. Deposits/Investments (Continued)

Restricted assets consisted of the following:

	September 30, 2018		September 30, 2017	
	Cash & Cash Equivalents	Investments	Cash & Cash Equivalents	Investments
Electric System:				
Reserve Account	$ --	$ 4,572,272	$ 25,694	$ 4,584,989
Ash Disposal Closure/ Post-Closure Care	1,038,349	--	996,715	--
Debt Service Account	--	--	2,267	3,180,821
	$ 1,038,349	$ 4,572,272	$ 1,024,676	$ 7,765,810
Combined System:				
Debt Service Res Fund	$ --	$ 1,804,000	$ --	$ 1,804,000
Bond Payment Fund	1,358,869	--	1,348,620	--
	$ 1,358,869	$ 1,804,000	$ 1,348,620	$ 1,804,000

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and September 30, 2017

Note 8. Capital Assets and Construction in Progress

	Property, Plant & Equipment			
	09/30/17	Increases	Decreases	09/30/18
Non-Depreciable Assets:				
Electric - Land and land rights	$ 2,151,550	$ --	$ --	$ 2,151,550
Combined				
Gas - Land and land rights	371,163	--	--	371,163
Water - Land	1,308,363	--	--	1,308,363
Pollution Control - Land and land rights	2,431,592	--	--	2,431,592
Total Non-Depreciable Assets	6,262,668	-	-	6,262,668
				$ 35,086,297
Depreciable Assets:				
Electric	182,420,177	2,456,168	(588,087)	184,288,258
Electric Non-Utility Plant	15,866,333	--	--	15,866,333
	198,286,510	2,456,168	(588,087)	200,154,591
Combined				
Gas	33,345,893	378,503	(33,520)	33,690,876
Water	39,639,344	2,711,187	(209,296)	42,141,235
Pollution Control	62,833,452	503,791	(13,037)	63,324,206
Street Lighting	1,632,719	911		1,633,630
Administrative	771,321	313,583	(329,647)	755,257
	138,222,729	3,907,975	(585,500)	141,545,204
Total Depreciable Assets	336,509,239	6,364,143	(1,173,587)	341,699,795
Total Capital Assets	$ 342,771,907	$ 6,364,143	$ (1,173,587)	$ 347,962,463

Construction in Progress

	09/30/17	Net Change	09/30/18
Electric	2,293,437	2,807,307	5,100,744
Combined	6,407,166	3,554,431	9,961,597
Total Construction in progress	8,700,603	6,361,738	15,062,341

Accumulated Depreciation 09/30/17	Increases	Decreases	09/30/18	Net Property, Plant & Equipment	
					Non-Depr. Assets:
				$ 2,151,550	Electric
				371,163	Gas
				1,308,363	Water
				2,431,592	Pollution Control
				6,262,668	Total Non-Depr. Assets
					Depreciable Assets:
114,847,026	5,121,258	(145,276)	119,823,008	64,465,250	Electric
4,779,663	692,772		5,472,435	10,393,898	Electric
119,626,689	5,814,030	(145,276)	125,295,443	74,859,148	
27,581,038	1,590,606	(20,089)	29,151,555	4,539,321	Gas
8,004,268	670,632	(84,378)	8,590,522	33,550,713	Water
26,909,173	1,873,764	(84)	28,782,853	34,541,353	Pollution Control
175,605	33,162		208,767	1,424,863	Street Lighting
677,271	16,086	(13,052)	680,305	74,952	Administrative
63,347,355	4,184,250	(117,603)	67,414,002	74,131,202	
182,974,044	9,998,280	(262,879)	192,709,445	148,990,350	Total Deprec.
$ 182,974,044	$ 9,998,280	$ (262,879)	$ 192,709,445	$ 155,253,018	Total Capital Assets

Summary of changes for prior year, 9/30/2016 through 9/30/2017

Total Assets	9/30/2016	Change	Sept. 30, 2017
Electric	182,937,091	1,634,636	184,571,727
Elec Non Ut Plan	15,866,333		15,866,333
Combined		-	
Gas	33,038,022	679,034	33,717,056
Water	35,593,319	5,354,388	40,947,707
PCF	63,098,474	2,166,570	65,265,044
St. Lights	1,509,424	123,295	1,632,719
Admin	755,257	16,064	771,321
	133,994,496	8,339,351	142,333,847
Total Assets	332,797,920	9,973,987	342,771,907
Const in Progress			
Electric	1,580,397	713,040	2,293,437
Combined	6,808,878	(401,712)	6,407,166
	8,389,275	311,328	8,700,603

Note 9. Allocation of Combined System Administration Other Income

Beginning with the year ended December 31, 1991, the Utilities has allocated the combined system's administration's other income to the operating departments of the combined system.

Note 10. Environmental Remediation

At present there is an ongoing investigation in the Hastings area of groundwater contamination. The investigation is being conducted by the United States Environmental Protection Agency (EPA). The City of Hastings (the City) has been named as a potentially responsible party at three of the seven designated subsites, and has some involvement at the four remaining subsites by virtue of its ownership and operation of public facilities. Additionally, the City and other parties are responsible for what is known as the Area Wide Operable Unit, which is an overlay of six of the seven subsites. The City's liability at three of these subsites, and for the Area Wide Operable Unit, will be in the form of annual maintenance and operating costs of remediation equipment and improvements (such as landfill covers). The cost is projected at somewhere between $100,000 and $150,000 per year, although much of such costs will be satisfied by in-kind services provided by City staff. The City's obligation on one sub-site, Operable Units 12 and 20 of the 2nd Street Sub-site, in which the City had been designated the only potentially responsible party, has been settled by a consent decree in the amount of $14,130,572. However, upon receipt of a cash settlement of $1,000,000, in-kind services in the amount of $1,700,000, and 49.6% of any insurance recovery, the City will be deemed to have met this obligation. The cash obligation and insurance recovery have been paid. The City and the utilities have provided approximately $641,000 of in-kind services. On June 4, 2017, the State took over the groundwater (down-gradient) operable unit (OU20) and the City will no longer provide in-kind services on OU20. The EPA is continuing to monitor/operate source control operable unit (OU12) and informed the City to cease all in-kind services on June 30, 2017; nevertheless, the City is willing to continue to provide any additional in-kind services as requested by the EPA in order to reduce the expected remaining liability, which was reduced to $953,392 pursuant to the Consent Decree. At September 30, 2018, the City of Hastings General Operating Fund had accrued a liability of $953,392.

Note 11. Transfers To City's General Fund

<u>Electric System</u>

In Lieu of Tax Payment:

The transfer from the Electric System to the general fund of the City is calculated as five and six/tenths percent (5.6%) of the operating revenues of the Electric System for the prior year. The transfer to the general fund in 2019, based on operating revenues of 2018, is calculated to be $2,133,887. The transfers to the general fund of the City for the years ending September 30, 2018 and 2017 was calculated as five and six/tenth percent (5.6%) of the operating revenues of the Electric System for fiscal years ended September 30, 2018 and 2017 and were $2,133,887 and $2,116,148 respectively.

Note 11. Transfers to City's General Fund (Continued)

Combined System

In Lieu of Tax Payment:

The City withdraws monthly from combined funds for payment to the General Fund of the City an amount equal to 1/12 of 4% of operating revenues for the preceding years, except as of April 1, 1996 the water department percentage was changed to 1/12 of 5.14% of operating revenues for the preceding year. For the year ending September 30, 2018 the total amount of in lieu of tax payments are calculated to be $917,190 based on the operating revenues for the year ended September 30, 2018. For the year ended September 30, 2017, the total amount of in lieu of tax payments were calculated to be $861,879, based on the operating revenues for the year ended September 30, 2017. These amounts are accrued as payable to the City and are paid during the following fiscal year.

Resolution #1344:

On July 22, 1991 resolution #1344 was passed by the City Council to transfer from the Gas Department and the Water Department of the Combined System to the City's General Fund 2.5% of the total revenues of the previous year. This amount will be in addition to the current in lieu of tax payments. The payment for the year ended September 30, 2018 is $390,948. The payment for the year ended September 30, 2017 was $351,718.

Note 12. Rebate (Arbitrage) Payment Requirements

The Utility is subject to a potential rebate payment on investment earnings in excess of an allowable amount under Internal Revenue Code Section 148. The accounts subject to this potential rebate are the Debt Service Fund and Bond Reserve Fund in the Electric System, and Bond Payment Fund and the Debt Service Reserve Fund in the Combined System. At the present time, no accruals have been made as any amounts have been determined to be immaterial.

Note 13. Public Power Generation Agency Financial Commitment

On October 25, 2006, the Utilities entered into an Amended and Restated Participation Agreement with the Public Power Generation Agency (PPGA). PPGA was formed under the Interlocal Cooperation Act of the State of Nebraska to construct and operate Whelan Energy Center Unit 2 (WEC 2), a 220 megawatt (MW) coal-fired electric generating plant located at the existing Whelan Energy Center. The Agreement entitles the Utilities to 35 MW of capacity (or 15.9%) of the estimated 220 MW capacity of WEC 2. Under the terms of the Agreement, the Utilities has been selected to be the Project Construction Manager and Project Operating Agent for WEC 2. WEC 2 began commercial operation on May 1, 2011.

Note 14. Future Partial Assignment of Energy

The Utilities entered into agreements with Heartland Consumers Power District (HCPD) and with Municipal Energy Agency of Nebraska (MEAN) on May 29, 2008 and June 9, 2008, respectively; for the partial assignment of future energy resources. Each of the parties are members of the Public Power Generation Agency (PPGA), which constructed a 220 megawatts (MW) maximum net output coal-fired electric generation facility and associated transmission facilities known as Whelan Energy Center #2 (WEC #2). The members of PPGA are each entitled to a share of the MW output of the facility. The MW output for HU is 35 MW. HU anticipated that it would initially not need all of the energy that it was entitled to. HU entered into the future partial assignment of MW output with HCPD and MEAN as follows:

	HCPD	MEAN
Commercial operation date through April 2013	15	15
May 2013 through April 2014	13	12
May 2014 through April 2015	10	10
May 2015 through April 2016	7	8
May 2016 through April 2017	5	5
May 2017 through April 2018	3	2

Note 15. Risk Management

The Utilities is subject to various risks of loss related to general liability and property insurance. The Utilities has purchased commercially available indemnity insurance to cover their risks. The Utilities has also established insurance funds so that they can maintain higher deductible amounts. The amount of insurance settlements has not exceeded insurance coverage in the past three years.

Note 16. Net Position

As prescribed under GASB #63 equity is divided in three categories: (1) Net investment in capital assets; (2) Restricted; (3) Unrestricted.

	Electric		Combined	
Net investment in capital assets:	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Net plant in service	$ 66,616,800	$ 69,724,701	$ 78,242,320	$ 78,986,492
Construction in progress	5,100,744	2,293,437	9,961,597	6,407,166
Deferred Charges	94,410	144,312	34,955	2,750
Misc. Deferred Credits	(1,223,808)	(1,191,058)	(280,280)	(568,006)
Revenue Bonds	(4,020,000)	(8,140,000)	(16,140,000)	(17,330,000)
SRF Loan	--	--	(2,781,130)	--
Unamortized discount on bonds	(2,301)	(29,120)	(318,000)	(392,669)
Deferral from advanced refunding	7,080	44,959	6,646	10,067
	66,572,925	62,847,231	68,726,108	67,115,800
Restricted:				
Bond reserve fund	4,572,272	4,610,683	1,804,000	1,804,000
Debt service fund	--	3,183,088	1,358,869	1,348,620
	4,572,272	7,793,771	3,162,869	3,152,620
Unrestricted:	38,019,700	38,161,049	35,086,297	32,559,605
Total Net Position:	$ 109,164,897	$ 108,802,051	$ 106,975,274	$ 102,828,025

Note 17. Nebraska Water Sustainability Fund Grant

On August 11, 2016, the City of Hastings entered into an agreement with the Nebraska Department of Natural Resources providing for a grant of $4,410,000 for the Aquifer Storage and Restoration (ASR) project in the water department. The grant is pursuant to the Nebraska Water Sustainability Fund Grant Program. The grant provides for a sixty percent (60%) reimbursement of eligible costs of the project, up to a maximum reimbursement of $4,410,000. As of September 30, 2018, requests for reimbursements totaling $3,725,522 have been submitted, of which $3,337,999 was received during the year ended September 30, 2017.

Note 18. Loan from Gas Rate Stabilization Fund to Street Lighting

At the April 2, 2015 Board of Public Works meeting, the Utilities was authorized to transfer up to $1,600,000 from the Gas Rate Stabilization Fund to the Street Lighting Department to be repaid over a five year period at an interest rate of 1%. The purpose of the transfer is to fund the conversion of the existing street lighting system to more economical LED fixtures. At September 30, 2018, the balance was $1,100,000; at September 30, 2017, the balance was $900,000.

Note 19. Contractual Commitments

Existing contractual commitments at September 30, 2018 are with the following vendors: Eriksen Construction, for the North Baltimore RO Treatment, $80,701, estimated completion December 2018; Van Kirk Brothers for sewer main in Shadow Ridge 7th Add, $7,311, estimated completion February 2019; IES Commercial for WEC Unit 1 switch gear, $315,484, estimated completion June 2019.

Note 20. Subsequent Events

Management has evaluated subsequent events through February 7, 2019, the date that the financial statements were available to be issued and is noting the following:

On November 16, 2018 the Utilities entered into a thirty (30) year Gas Supply Agreement (GSA) with CPEP Project No. 4 for approximately 25% of the Utilities ten (10) year historical average annual natural gas consumption. See Note 6.

On January 14, 2019, City Council approved a $248,820 contract for a sanitary sewer outfall bypass and metering structure demolition project with Van Kirk Brothers.

SUPPLEMENTARY INFORMATION

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

ELECTRIC SYSTEM
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Retail	$ 35,839,461	$ 35,094,323
Wholesale	2,265,660	2,694,042
Total operating revenues	38,105,121	37,788,365
OPERATING EXPENSES		
Production expenses:		
Fuel	4,888,287	6,276,748
Other	7,338,908	6,578,585
Purchased power	13,638,188	10,670,292
Transmission and distribution expense	1,691,902	1,818,747
General and administrative expenses:		
Direct	2,360,550	2,096,602
Indirect	2,960,638	2,938,907
Depreciation	4,932,078	4,867,008
Total operating expenses	37,810,551	35,246,889
Operating income	294,570	2,541,476
OTHER INCOME AND (EXPENSES)		
Interest income	305,573	172,065
Reimbursement from PPGA	6,097,526	5,708,672
Participation and capacity agreements	868,709	794,636
Miscellaneous income	5,362,258	5,818,113
Interest and amortization expense	(215,145)	(380,045)
Cost of services to PPGA	(6,097,526)	(5,708,672)
Non utility plant depreciation expense	(692,772)	(692,772)
Miscellaneous expenses	(3,455,448)	(3,866,785)
Total other income and expenses	2,173,175	1,845,212
CAPITAL CONTRIBUTIONS	28,988	214,651
TRANSFERS TO THE CITY	(2,133,887)	(2,116,148)
Change in net position as restated	$ 362,846	$ 2,485,191

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

COMBINED SYSTEMS
DEPARTMENTAL STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018						
	Gas	Water	Pollution Control	Street Lighting	Adminis-tration	Total	2017 Total
Operating revenue	$ 8,244,435	$ 6,414,218	$ 6,443,062	$ 511,321	$ --	$ 21,613,036	$ 20,304,189
Operating expenses	7,069,124	2,825,580	3,202,336	223,979	--	13,321,019	13,380,767
OPERATING INCOME BEFORE DEPRECIATION	1,175,311	3,588,638	3,240,726	287,342	--	8,292,017	6,923,422
Less depreciation	1,467,360	619,800	1,869,600	33,162	--	3,989,922	3,739,476
						35,086,297	
OPERATING INCOME (LOSS)	(292,049)	2,968,838	1,371,126	254,180	--	4,302,095	3,183,946
Add other income	811,263	151,242	107,430	121	--	1,070,056	316,926
Capital contributions	--	1,462,110	210,126	--	--	1,672,236	4,256,043
Deduct other expenses	(1,029,593)	(38,340)	(521,067)	--	--	(1,589,000)	(665,121)
Transfers to the City	(556,487)	(493,929)	(257,722)	--	--	(1,308,138)	(1,213,597)
CHANGE IN NET POSITION	$ (1,066,866)	$ 4,049,921	$ 909,893	$ 254,301	$ --	4,147,249	5,878,197
Net position - beginning						102,828,025	96,949,828
Net position - ending						$ 106,975,274	$ 102,828,025

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

COMBINED SYSTEM - GAS
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Retail	$ 8,244,435	$ 7,694,916
Wholesale	--	--
Total operating revenues	8,244,435	7,694,916
OPERATING EXPENSES		
Production expenses:		
Fuel	4,422,165	4,333,328
Other	45,634	39,741
Transmission and distribution expense	1,050,261	1,037,668
General and administrative expenses:		
Direct	784,680	652,449
Indirect	723,676	772,839
Intra-City Services	42,708	39,456
Depreciation	1,467,360	1,434,558
Total operating expenses	8,536,484	8,310,039
Operating income (loss)	(292,049)	(615,123)
OTHER INCOME AND (EXPENSES)		
Miscellaneous income	811,263	143,516
Reimbursement from PPGA	--	962
Miscellaneous expenses	(54,593)	(89,594)
Economic development	(975,000)	--
Cost of services to PPGA	--	(962)
Total other income and expenses	(218,330)	53,922
CAPITAL CONTRIBUTIONS	--	--
TRANSFERS TO THE CITY	(556,487)	(503,758)
Change in net position	$ (1,066,866)	$ (1,064,959)

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

COMBINED SYSTEM - WATER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Retail	$ 6,338,583	$ 6,063,060
Wholesale	75,635	70,981
Total operating revenues	6,414,218	6,134,041
OPERATING EXPENSES		
Production expenses	788,356	787,240
Operation of water treatment	145,637	4,486
Transmission and distribution expense	814,157	775,246
General and administrative expenses:		
Direct	352,707	657,620
Indirect	724,723	704,025
Depreciation	619,800	500,106
Total operating expenses	3,445,380	3,428,723
Operating income	2,968,838	2,705,318
OTHER INCOME AND (EXPENSES)		
Reimbursement from PPGA	1,325	275
Miscellaneous income	149,917	96,248
Cost of services to PPGA	(1,325)	(275)
Interest expense	(10,590)	--
Miscellaneous expenses	(26,425)	(27,277)
Total other income and expenses	112,902	68,971
CAPITAL CONTRIBUTIONS	1,462,110	4,035,945
TRANSFERS TO THE CITY	(493,929)	(471,047)
Change in net position	$ 4,049,921	$ 6,339,187

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

COMBINED SYSTEM - POLLUTION CONTROL
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Retail	$ 6,443,062	$ 5,969,798
Total operating revenues	6,443,062	5,969,798
OPERATING EXPENSES		
Sewer treatment expenses	1,335,294	1,365,669
Sewer line expenses	497,735	567,354
General and administrative expenses:		
Direct	545,687	501,067
Indirect	823,620	877,649
Depreciation	1,869,600	1,774,206
Total operating expenses	5,071,936	5,085,945
Operating income	1,371,126	883,853
OTHER INCOME AND (EXPENSES)		
Interest income	22,968	18,052
Miscellaneous income	84,462	57,332
Interest and amortization expenses	(518,006)	(543,341)
Miscellaneous expenses	(3,061)	(3,672)
Total other income and expenses	(413,637)	(471,629)
CAPITAL CONTRIBUTIONS	210,126	220,098
TRANSFERS TO THE CITY	(257,722)	(238,792)
Change in net position as restated	$ 909,893	$ 393,530

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

COMBINED SYSTEM - STREET LIGHTING
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Street Lights	$ 511,321	$ 505,434
Total operating revenues	511,321	505,434
OPERATING EXPENSES		
Production:		
Operation and maintenance	59,683	62,734
Purchased power	140,295	173,811
General and administrative expenses:		
Indirect	24,001	28,385
Depreciation	33,162	30,606
Total operating expenses	257,141	295,536
Operating income	254,180	209,898
OTHER INCOME AND (EXPENSES)		
Miscellaneous income	121	541
Total other income and expenses	121	541
CAPITAL CONTRIBUTIONS	--	--
Change in net position	$ 254,301	$ 210,439

See Notes to Financial Statements

CITY OF HASTINGS, NEBRASKA
UTILITY DEPARTMENT

COMBINED SYSTEM - ADMINISTRATION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	2018	2017
GENERAL AND ADMINISTRATIVE EXPENSES	$ 7,838,549	$ 7,569,768
Less: Overhead allocated	1,675,192	1,330,308
Reimbursement from PPGA	924,119	938,309
Reimbursement from EPS	6,581	7,731
Allocable expenses	5,232,657	5,293,420
ALLOCATION OF EXPENSES TO OPERATING DEPARTMENTS		
Electric	2,960,638	2,938,907
Gas	723,676	772,839
Water	724,723	35,086,297
Pollution Control	823,620	877,649
Total allocation	5,232,657	39,675,692
Operating expenses	-	-
OTHER INCOME		
Interest income	286,792	75,399
Gain on sale of property	11,323	--
Miscellaneous income	107,143	99,081
Total other income	405,258	174,480
ALLOCATION OF OTHER INCOME TO OPERATING DEPARTMENTS		
Gas	246,154	110,777
Water	104,719	41,858
Pollution Control	54,264	21,304
Street Lighting	121	541
Total allocation	405,258	174,480
Change in net position	$ --	$ --

See Notes to Financial Statements

ALMQUIST
MALTZAHN
GALLOWAY
& LUTH
CERTIFIED
PUBLIC
ACCOUNTANTS

SHAREHOLDERS

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

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

To the Utility Advisory Board
Hastings Utilities
City of Hastings, 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 business-type activities and each major fund of the Hastings Utilities, Hastings, Nebraska, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Hastings Utilities' financial statements, and have issued our report thereon dated February 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hastings Utilities' 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 Hastings Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Hastings Utilities' internal control.

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

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A PROFESSIONAL CORPORATION

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 that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

<u>Segregation of Duties</u>

Due to limited number of personnel, there is not adequate segregation of duties to ensure internal control over cash receipts, disbursements, and recording of transactions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hastings Utilities' 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*.

Hastings Utilities' Response to Findings

The Hastings Utilities' response to the findings identified in our audit is that due to the small size of Hastings Utilities, it is impractical to further segregate duties. Hastings Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Almquist, Maltzahn, Galloway & Luth, P.C.

Grand Island, Nebraska
February 7, 2019

To: Kevin Johnson
From: Keith Leonhardt KL
Date: March 26, 2019
Subject: Bid Evaluation for Water Main Improvement
Informal Contract HU 2019-03 IC-08

On March 25, 2019 bids were opened for the Water Improvement Contract as noted above. A summary of the base bids is given below:

BIDDER	Bid Surety	Except.	WA-358 5th St. St. Joseph to Minnesota	Total
Van Kirk Brothers Sutton, NE	5%	No	$267,075.00	$267,075.00
Myers Construction Broken Bow, NE	5%	Yes	$363,663.89	$363,663.89

Project WA-358 is to replace and upgrade to an 8" water main on 5th Street from St. Joseph to Minnesota then south on Minnesota to 4th Street. This will tie into the main that was completed last fall on 4th street from St. Joseph to Minnesota.

The Budget Item 3.23 was to replace the main on 5th Street from Minnesota to California. This location coordinates better with the City plan to repave this street in 2020. This main is approximately 100 years old and experienced a break in recent years. Also some valves are not operating and need to be replaced. Completing this project this construction season will allow the street to be repaved in 2020.

Staff recommends that the project be awarded to VanKirk Brothers of Sutton, Nebraska for a total of $267,075.00 which is the lowest and best bid for Hastings Utilities.

HU Form No. 34 **Date:** 04/01/19

WORK ORDER ENGINEERING ESTIMATE
HASTINGS UTILITIES
HASTINGS, NEBRASKA

Name of Department:	Water	**Work Order No.:**	WA-358
Construction:	X	**Budget Item No.:**	3.23 (2018 - 2019)
Retirement:		**Budget Item Amt:**	$200,000

DESCRIPTION AND LOCATION:

Replace and upgrade with a 8" water main on 5th Street; Saint Joseph Ave. to Minnesota Ave..

PURPOSE OF WORK IMPROVEMENT:

Improve fire protection in area.

CONTRIBUTIONS/REMARKS:

Main is a 100 years old and has a history of breaks and broken valves.
We Believe the budgeted money is available because item 3.20 ($280,000) is not going forward as fast as planned.
Informal Contract HU 2019-03 IC-08

Estimated Cost	Amount		
1. Material to be Purchased	2,100.00	Attached Map or DWG No.:	WR-099
2. Stores Dept. Charge @ 8.0%	168.00	Sheet No.:	
3. Material from Stock	219.62	Date Work to be Started:	05/01/19
4. Stores Dept. Charge @ 8.0%	17.57	Date Work to be Finished:	09/20/19
5. Labor	6,240.00	Checked By: Mark Hemberger	Date 4-2-2019
6. Mileage & Truck Usage	375.00		
7. Equipment Usage	0.00	Checked By: Ron Sekora	Date 4-2-19
8. Contract Amount (Van Kirk Bros. Contracting	267,075.00		
9.		Approved By: Keith Leonhardt	Date 4-2-19
10.			
SUBTOTAL	$276,195.19	Director of Engineering	
Engineering & Administration @ 12%	33,143.42	Approved By:	Date
Subtotal	$309,338.61		
Less Developer Contribution		City Council	
		Authorized By:	Date
			4/2/19
TOTAL ESTIMATED COST OF WORK ORDER	$309,338.61	Manager	

HASTINGS UTILITIES, HASTINGS, NEBRASKA

Work Order No.: WA-358
B.I. No.: 3.23
B.I. Yr.: 2018 - 2019

LABOR AND EQUIPMENT ESTIMATE

Classification of Labor or Equipment to be Used		No of Hr/Mi/Ft	Cost Per Unit	Subtotal	Total Cost
LABOR:	Engineering	80	56.00	4,480.00	
	Water Department	40	44.00	1,760.00	
				0.00	
		TOTAL - LABOR			$6,240.00
MILEAGE:	Truck #38	150	2.50	375.00	
				0.00	
		TOTAL - MILEAGE & TRUCKS			$375.00
EQUIPMENT				0.00	
				0.00	
				0.00	
				0.00	
				0.00	
		TOTAL - EQUIPMENT USAGE			$0.00
TOTAL COST ALL LABOR AND EQUIPMENT ESTIMATE					$6,615.00

MATERIAL ESTIMATE

Quantity		Stock Number	Description	Unit Price	Stock Material	New Material
16.00	EA		Water Samples	50.00		$ 600.00
4.00	EA	650-25-03	3 lb. Anode	20.64	61.92	
1500.00	LF	023-07-05	Blue Warning Tape	0.05	50.00	
2500.00	LF	072-04-12	Blue Tracer Wire	0.10	100.00	
20.00	LF	113-05-05	1 1/2" White PVC Pipe	0.49	4.90	
4.00	EA	116-22-01	1 1/2" White Threaded Adapter	0.62	1.24	
4.00	EA	116-21-03	1 1/2" White Threaded Cap	0.78	1.56	
1.00	LS		Misc. Material	1,500.00		1,500.00
			TOTAL		$ 219.62	$ 2,100.00

Estimated By: S. Struss Date: 04/01/19

Replace and Upgrade with 8" main on 5th Street, from Minnesota Avenue to California Avenue.

The original project for Budget Item 3.23 was on 5th St from Minnesota to California, but 5th St from St Joseph to Minnesota coordinates better with the City plan to replace this street in 2020. The original project had a budget of $200,000 but the new project has an estimate of $309,338.61. This is more than the budgeted amount and we believe that it is highly unlikely that budget item 3.20 ($280,000) will be used this budget year because the project is not going forward as fast as planned.

HASTINGS UTILITIES

March 21, 2019

Utility Board
City of Hastings, Nebraska

RE: Release for Early Termination of NPGA Membership

Members of the Board:

National Public Gas Agency (NPGA) is an interlocal agency formed to assist smaller gas distribution communities with natural gas supply. NPGA operates under the umbrella of NMPP Energy (Nebraska Municipal Power Pool) with offices in Lincoln. The City of Hastings was one of the original founding members of the NPGA organization in 1991. Hastings has not been an active participant since the late 1990's due to usage of existing staff capability for gas supply arrangements and desire to maintain local control of the energy resources that fit our requirements. The other NPGA communities rely on NPGA to aggregate and arrange for their total requirements. NPGA bylaw changes have created the opportunity for Hastings to become an associate member and maintain ties to the organization without the responsibilities of full membership. Nebraska City is also similar to Hastings and facing this same issue. This also benefits NPGA when facing quorum issues due to absent members for votes at Board meetings.

The approval by the City of Hastings for the Release for Early Termination of NPGA Membership agreement and accompanying City Council resolution is the first step for transition to associate member status. It is anticipated that the NPGA Board will act on the resolution requesting the conversion to associate membership on June 13, 2019. The agreement has been reviewed by Dave Ptak, City Attorney.

Staff recommends that the Utility Board approve and recommend to the City Council, approval of the Release for Early Termination of NPGA Membership agreement with National Public Gas Agency.

Staff will be available to answer any questions the Board may have on this agreement.

Sincerely,

Allen W. Meyer

Allen W. Meyer
Asst. Manager of Utilities

1228 N. Denver Ave. • P. O. Box 289 • Hastings, NE 68902-0289 • Phone: (402) 463-1371 • Fax: (402) 463-1705 • www.hastingsutilities.com

NMPP ENERGY™ NMPP | MEAN | NPGA® | ACE

Memorandum

TO: Whom It May Concern

FROM: Chris Dibbern, General Counsel

DATE: March 11, 2019

SUBJECT: Background Regarding NPGA's Newly Expanded Associate Membership Class

This is a short white paper to explain National Public Gas Agency (NPGA)'s proposal to expand and convert the City of Hastings' and City of Nebraska City's Full Membership status to Associate Membership Class in NPGA.

During 2018 NPGA reviewed several topics relevant to its governance, finance and operations. There were times when satisfying the meeting quorum requirement was very tight and telephone call-in options were restricted. The Board discussed offering an Associate Membership Class to certain Charter Members of NPGA, such as Hastings and Nebraska City, as an option that would retain certain benefits but also release the Member from attendance, quorum, liability and governance requirements. There are several upcoming issues that may even require a 2/3 vote or supermajority, which will necessitate voting numbers above and beyond normal quorum.

NMPP staff investigated retaining discounted memberships in national groups for Associate Class and also discussed other NPGA concerns in person with Hastings and Nebraska City staff. Both cities indicated willingness to take this option to their respective governing bodies for consideration. Both cities still add value to NPGA, and if there are natural gas opportunities in the future, the NPGA Associate Class would preserve those opportunities for participating communities.

Nebraska City and Hastings helped to form NPGA and both were instrumental in major past group decisions. Both communities are still in good standing with NPGA, yet have not regularly attended Board meetings, and have not utilized actual NPGA natural gas services for decades.

The NPGA Board of Directors recently adopted Bylaws changes and release forms which are required for the transition to the newly expanded NPGA Associate Class category. The purpose for this expanded membership category is to help NPGA with meeting quorum issues while still retaining a close connection with the cities of Hastings and Nebraska City, for any future opportunities that may arise.

Attached are the release forms approved by the NPGA Board of Directors on February 13, 2019, and a resolution for your respective City Council's attention. Both cities are certainly in good standing with NPGA and the resolution can be tweaked by your governing body. Again, the sole purpose of this action is to waive the three-year notice requirement and effectuate an early termination from Full Membership status in NPGA. This change does not in any way impact Hastings' or Nebraska City's membership or contracts with the Nebraska Municipal Power Pool or the Municipal Energy Agency of Nebraska.

Because the NPGA Board needs to act upon your resolution within sixty (60) days of receiving the request, and the next NPGA board meeting is scheduled for June 13, 2019, NPGA asks the Hastings and Nebraska City City Councils to consider taking action after April 13, 2019.

Please call me if you have any questions.

CD/cl

Attachments

Release for Early Termination of NPGA Membership

Whereas, the National Public Gas Agency ("NPGA"), an interlocal agency and separate public body corporate and politic formed pursuant to the Nebraska Interlocal Cooperation Act, has adopted Bylaw procedures for the normal and early termination of membership; and

Whereas, Section 3.03 of the May 11, 2011 Amended and Restated Interlocal Agreement for NPGA allows any member to terminate its participation by giving three years' written notice to the Board of Directors, which shall be then sent to all Members notifying them of termination; and

Whereas, the Amended and Restated Bylaws of NPGA prescribe the terms and conditions under which early termination can be accomplished; and

Whereas, the NPGA Board of Directors on December 13, 2018 amended the NPGA Bylaws addressing the Associate class option regarding voluntary early termination of memberships; and

Whereas, NPGA has received notice of the intent of the City of Hastings, Nebraska, ("City"), currently a member of NPGA, to exercise the procedure for early termination of membership; and

Whereas, the City is to provide certain releases, subject to the requirements of the NPGA Bylaws; and

Whereas, the form and content of this release has been approved by the Board of Directors of NPGA in accordance with NPGA's Bylaws;

Now, therefore, in consideration of the mutual benefit of early termination itself and pursuant to the terms and conditions of the NPGA Bylaws, the parties hereby covenant and agree as follows:

1. **Conditions Precedent to Effective Date of Release.** The parties acknowledge and agree that pursuant to the NPGA Bylaws, the City must provide a certified copy of the resolution or ordinance approving the termination and the City must execute the release and covenant not to sue memorialized by this agreement. Upon timely receipt of the ordinance/resolution from the City requesting the termination of membership, and the execution of this release by the City and by NPGA, the action will be considered complete. Upon receipt of the resolution/ordinance and execution of this release by the City and by NPGA, the NPGA membership and Member voting rights of the City are terminated, including without limitation the City's participation in the National Public Gas Agency Amended and Restated Interlocal Agreement and the City's voting rights on the Board of Directors. This release shall become binding and effective upon the fulfillment of the foregoing conditions precedent.
2. **Release and Covenant Not to Sue.** Upon completion of the requirements of the NPGA Bylaws, as identified in the paragraph entitled "Conditions Precedent to Effective Date of Release" above, the City does for itself and its successors and assigns, hereby release, acquit and forever discharge NPGA and its present and former officers, directors, employees, agents, attorneys, advisors and consultants, and the employees of the Nebraska Municipal Power Pool ("NMPP"), from any and all claims or causes of action, which the City now has or which may have accrued prior to the effective date of this

release, whether known or unknown, whether arising in tort, contract or otherwise. The City agrees not to bring any legal action or make any regulatory or administrative complaint against NPGA arising out of or related to any of the released matters. The City further agrees that it will not bring any action or otherwise contesting the validity or enforceability of the Bylaws of NPGA or the National Public Gas Agency Amended and Restated Interlocal Agreement.

3. **Assets and/or Distribution from NPGA.** The parties acknowledge and agree that upon the effective date of this release, the City releases any and all claims to all assets and all receivables of NPGA, both now and in the future, in recognition of the early termination.

4. **Applicable Law, Construction/Interpretation, Miscellaneous.** This agreement shall be construed in accordance with the laws of the State of Nebraska. Any action arising out of or related to this document shall be filed solely and exclusively with the District Court of Lancaster County, Nebraska, which is declared to be the forum of choice of the parties. This agreement shall be construed liberally to effectuate the intent of the parties. This agreement and the Bylaws represent the entire and exclusive agreement by and between the parties with respect to the subject matter hereof, and this agreement is not subject to amendment or modification unless such amendment/modification is reduced to writing, references this original document, and is signed by the parties hereto.

5. **Authority.** Each of the parties represents to the other that it has obtained proper and binding authorization for the execution of this agreement by the official signatory hereto.

6. **Execution in Counterparts.** This agreement may be executed in counterparts, all of which shall constitute one in the same instrument. Separate original signature pages may be combined into one document by express agreement of the parties.

[SIGNATURE PAGE FOLLOWING]

IN WITNESS WHEREOF, each of the parties has caused this Release for Early Termination of NPGA Membership agreement to be executed by its duly authorized officer as of the day and year shown below.

NATIONAL PUBLIC GAS AGENCY	CITY OF HASTINGS, NEBRASKA
By: ______________________________	By: ______________________________
Title: ______________________________	Title: ______________________________
Date: ______________________________	Date: ______________________________
Address: 8377 Glynoaks Drive Lincoln, NE 68516	Address: ______________________ ______________________ ______________________

RESOLUTION NO._____________________

WHEREAS, the City of Hastings, Nebraska ("City") is a party to the Amended and Restated Interlocal Agreement ("Interlocal Agreement") creating the National Public Gas Agency ("NPGA"), and, pursuant the terms of the Interlocal Agreement as amended, it is the option of the City to terminate its participation in NPGA upon three (3) years advance written notice; and

WHEREAS, the City is in good standing with NPGA; however, due to quorum reasons and for the benefit of the organization, the City is requesting early withdrawal from NPGA and early termination of the City's participation in the Interlocal Agreement with a waiver of the advance notice requirements, and

WHEREAS, the City desires to convert from membership status to Associate class status with NPGA; and

WHEREAS, the Board of Directors of NPGA has adopted certain provisions in the Amended and Restated Bylaws of NPGA that prescribe the terms and conditions under which such early termination of membership and conversion to Associate may be accomplished; and

WHEREAS, the City intends to provide NPGA with timely written notice of the City's desire for early termination of membership in NPGA, including termination of the City's participation in the Interlocal Agreement and voting rights in NPGA, and conversion to Associate class status; and

WHEREAS, in accordance with the Amended and Restated Bylaws of NPGA, the NPGA Board of Directors has approved and offered to the City a Release and Covenant Not To Sue document ("Release") that will effectuate early termination of the City's membership and voting rights in NPGA and early termination of the City's participation in the Interlocal Agreement, which must be approved and executed by the City as a condition precedent to early termination of the City's membership in NPGA; and

WHEREAS, the City desires to approve and authorize execution of the Release on behalf of the City.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and City Council of the City of Hastings, Nebraska, that, in consideration of early termination and the Release and the terms therein:

1. The City hereby approves requesting early termination of membership in NPGA, including termination of the City's participation in the Interlocal Agreement and voting rights in NPGA, and authorizes and directs the Mayor and City Clerk to forward a copy of this resolution as official notice from the City to NPGA to initiate the early termination process.

2. The City hereby approves the Release and authorizes and directs the Mayor and City Clerk to execute the Release on behalf of the City.

3. The City hereby approves requesting to convert to Associate class status with NPGA and authorizes and directs the Mayor and City Clerk to forward official notice to NPGA to request approval of the NPGA Board of Directors for the City to convert to Associate class status.

Adopted by the City Council this ________ day of______________________, _______,

____

Mayor

THIS IS TO CERTIFY that the foregoing is a true and accurate copy of the Resolution No. ____________ which was adopted by the City Council of the City of Hastings, Nebraska in a public meeting assembled on the _________ day of________________________, 20_____ and that the same has not been amended or rescinded.

____

City Clerk