

Nebraska Utility Corporation

(A Component Unit of the University of Nebraska)
Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019



Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
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Independent Auditor's Report

Board of Directors
Nebraska Utility Corporation
Lincoln, Nebraska

We have audited the accompanying financial statements of Nebraska Utility Corporation, a component unit of the University of Nebraska, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Nebraska Utility Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Utility Corporation as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.

BKD, LLP

Lincoln, Nebraska
September 11, 2020

Management's Discussion and Analysis (MD&A) (Unaudited)

SIGNIFICANT EVENTS

- Work continued on the steam tunnel infrastructure on both East and City campuses. This project involves tunnel renovation which includes insulation, expansion joints, anchors, steam traps, isolation valves and structural repairs. This project will increase safety, reliability and longevity of the steam distribution system.
- A manufacturer rebuild of two Trane chillers on East campus is close to completion. The rebuild included new gaskets, seals, bearings and leak testing. This project will result in greater energy efficiency and prolonged equipment lifespan.
- Construction activity continued on a project to fully automate the chilled water equipment dispatch on East campus. Installation of new sensors, actuators and programmable logic controllers will fully automate the chilled water equipment dispatch. This project will increase efficiencies and allow the chilled water systems to be operated remotely.

FINANCIAL REPORT OVERVIEW

The information provided in the MD&A section of the Financial Report is provided to explain activities, plans and events that impacted Nebraska Utility Corporation's (NUCorp) financial position and operating results for the 12-month periods ended June 30, 2020, 2019 and 2018. This overview from management is one of the three components of the Financial Report. The other two components are the Financial Statements and Notes to the Financial Statements. The Financial Report should be read in its entirety to understand the events and conditions impacting NUCorp.

Balance Sheet - This statement presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Assets and liabilities are each divided to distinguish current versus noncurrent. This statement reveals liquidity, financial flexibility and capital structure.

Statement of Revenues, Expenses and Changes in Net Position - Operating results are separated into operating revenue and expense and non-operating income and expense. This statement is useful in analyzing the financial health of the organization.

Statement of Cash Flows - This statement classifies sources and uses of cash summarized by operating, non-capital financing, capital and related financing and investing activities.

Notes to Financial Statements - The notes are an explanation of information within the Financial Statements.

FINANCIAL POSITION AND OPERATING RESULTS

The following table summarizes the financial position as of June 30:

CONDENSED BALANCE SHEETS

	2020	2019	2018
Current Assets	\$10,051,118	\$ 9,291,494	\$ 10,838,088
Noncurrent Assets	15,375,753	10,667,287	4,790,596
Capital Assets	62,312,692	62,327,871	60,431,622
Deferred Outflows of Resources	205,975	288,391	370,807
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$87,945,538	\$ 82,575,043	\$ 76,431,113
Current Liabilities	\$ 6,646,341	\$ 6,154,916	\$ 5,054,179
Noncurrent Liabilities	14,134,083	15,727,210	17,271,496
TOTAL LIABILITIES	\$20,780,424	\$21,882,126	22,325,675
Net Investment in Capital Assets	\$46,456,598	\$ 45,857,185	42,932,367
Restricted	5,525,956	4,366,595	3,568,831
Unrestricted	15,182,560	10,469,137	7,604,240
TOTAL NET POSITION	67,165,114	60,692,917	54,105,438
TOTAL LIABILITIES AND NET POSITION	\$87,945,538	\$ 82,575,043	\$ 76,431,113

Comparison of 2020 to 2019

Total assets and deferred outflows of resources in 2020 increased \$5,370,495 or 7% over 2019. Current assets increased primarily due to an increase in accounts receivables from the University of Nebraska Lincoln (UNL). Capital assets decreased \$15,179 due to an increase in accumulated depreciation and a decrease in construction work in progress; offset by an increase in plant assets. Deferred outflows of resources, which consists of the deferred loss on refunded debt, decreased \$82,416 due to amortization of this balance.

Total liabilities in 2020 decreased \$1,101,702 or 5% below 2019 mainly due to a reduction of long-term debt. Current liabilities increased \$491,425 due primarily to an increase in payables to UNL as a result of higher operations and maintenance expenses. Noncurrent liabilities decreased \$1,593,127 primarily due to a principal payment for the revenue bonds.

Net position in 2020 increased \$6,472,197 or 11% over 2019 based on results of operations.

Comparison of 2019 to 2018

Total assets and deferred outflows of resources in 2019 increased \$6,143,930 or 8% over 2018. Current assets increased primarily due to an increase in cash and cash equivalents due to lower capital construction funding. Capital assets increased \$1,896,249 due to an increase in capital investments. Deferred outflows of resources, which consists of the deferred loss on refunded debt, decreased \$82,416 due to amortization of this balance.

Total liabilities in 2019 decreased \$443,549 or 2% below 2018. Current liabilities increased \$1,100,737 due primarily to an increase in payables to the University of Nebraska Lincoln (UNL) as a result of higher operations and maintenance expenses. Noncurrent liabilities decreased \$1,544,286 primarily due to a principal payment for the revenue bonds.

Net position in 2019 increased \$6,587,479 or 12% over 2018 based on results of operations.

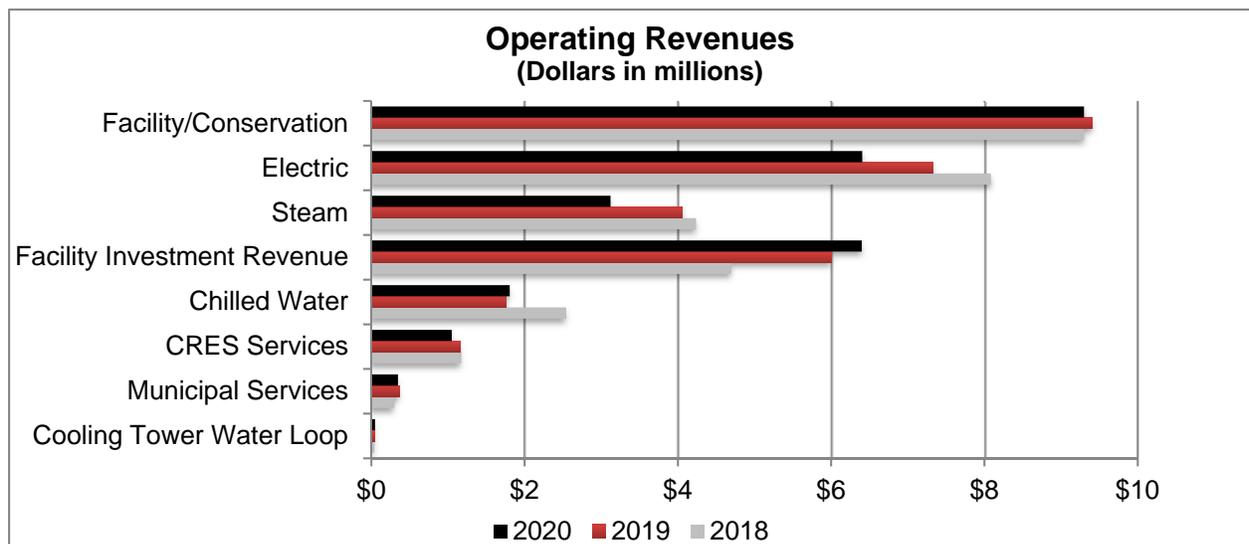
The following table summarizes operating results for the fiscal years ended June 30:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2020	2019	2018
Operating Revenues	\$ 28,482,485	\$ 30,126,063	\$ 30,406,111
Operating Expenses	22,018,002	23,419,931	22,442,508
Operating Income	6,464,483	6,706,132	7,963,603
Interest Expense (Net of Interest Rate Subsidy)	(318,913)	(363,544)	(411,038)
Other Non-Operating Income (Expense)	326,627	244,891	38,935
Total Non-Operating Income (Expense)	7,714	(118,653)	(372,103)
CHANGE IN NET POSITION	\$ 6,472,197	\$ 6,587,479	\$ 7,591,500

OPERATING REVENUES

The following chart illustrates operating revenues by category.



Comparison of 2020 to 2019

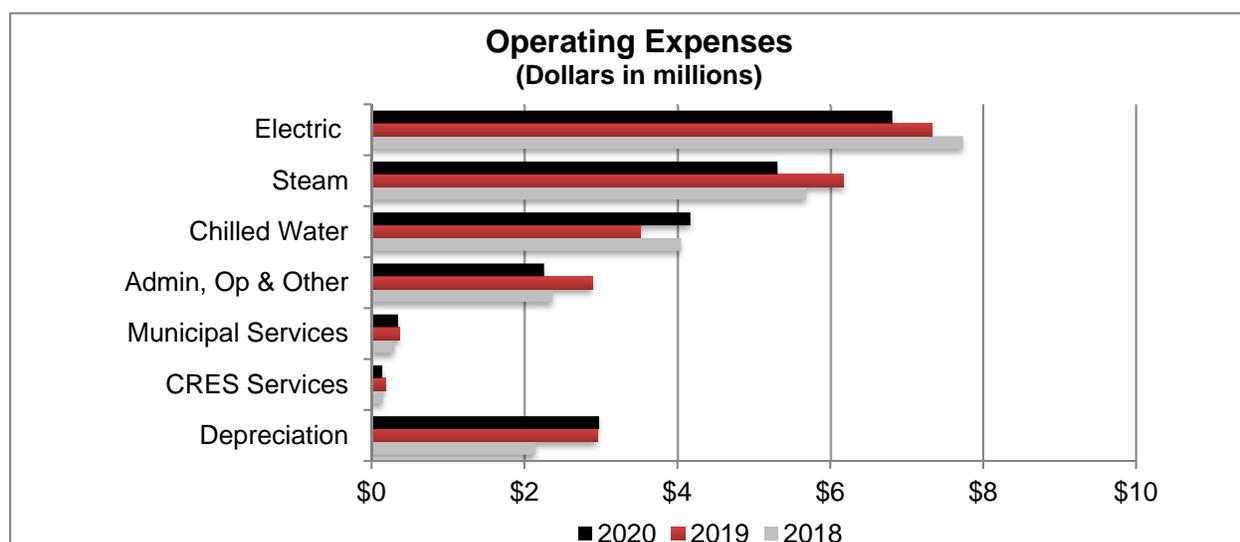
Operating revenues for 2020 were \$28,482,485, a decrease of \$1,643,578 from 2019 operating revenues of \$30,126,063. The decrease was primarily due to lower UNL utility consumption as a result of the campus closures from the COVID-19 pandemic.

Comparison of 2019 to 2018

Operating revenues for 2019 were \$30,126,063, a decrease of \$280,048 from 2018 operating revenues of \$30,406,111. The decrease was due primarily to a decrease in chilled water and electric revenues, offset by an increase in facility investment revenue.

OPERATING EXPENSES

The following chart illustrates operating expenses by category.



Comparison of 2020 to 2019

Operating expenses for 2020 were \$22,018,002, a decrease of \$1,401,929 from 2019 operating expenses of \$23,419,931. The decrease was due to lower UNL labor, natural gas, and electrical expenses. These decreases were offset by higher chilled water expenses as a result of increased repairs and maintenance expenses.

Comparison of 2019 to 2018

Operating expenses for 2019 were \$23,419,931, an increase of \$977,423 from 2018 operating expenses of \$22,442,508. Depreciation expense was higher due to utility plant additions and steam expenses increased due to higher sales as a result of colder than average weather. General expenses increased primarily due to higher maintenance costs. These increases were offset by lower chilled water and electric expenses due to lower sales and plant consumption.

CASH AND FINANCING ACTIVITIES

Cash and cash equivalents decreased \$1,863,703 and \$2,550,026 for fiscal years 2020 and 2019, respectively and increased \$984,880 for fiscal year 2018. The following table summarizes the cash flows by activities for the fiscal years ended June 30:

CONDENSED STATEMENTS OF CASH FLOWS

	2020	2019	2018
Cash Flows from Operating Activities	\$ 6,699,850	\$ 10,648,881	\$ 10,659,456
Cash Flows from Capital and Related Financing	(3,931,426)	(6,129,678)	(9,059,013)
Cash Flows from Investing Activities	(4,632,127)	(7,069,229)	(615,563)
CHANGE IN CASH & CASH EQUIVALENTS	\$ (1,863,703)	\$ (2,550,026)	\$ 984,880

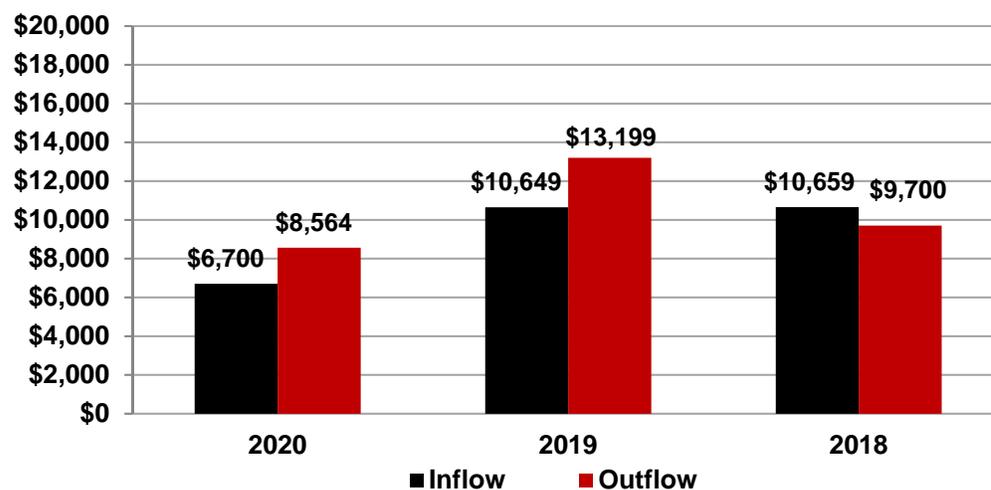
Cash flows from operating activities contain transactions involving customers and suppliers.

Cash flows from capital and related financing activities contain transactions involving the acquisition and construction of capital assets and the long-term debt related to that capital.

Cash flows from investing activities contain transactions related to security purchases and maturities and investment income.

Annual Cash Flows

(Dollars in thousands)



Comparison of 2020 to 2019

Cash flows from operating activities for 2020 decreased \$3,949,031 from 2019 as a result of the timing of payments from UNL. Cash flows used for capital and related financing activities for 2020 decreased \$2,198,252 from 2019 primarily due to a decrease in cash used for acquisition and construction of capital assets. 2020 cash flows from investing activities decreased from 2019 due to less maturities and sales of investments.

Comparison of 2019 to 2018

Cash flows from operating activities for 2019 decreased \$10,575 from 2018 as a result of energy efficiency and conservation measures implemented. Cash flows used for capital and related financing activities for 2019 decreased \$2,929,335 from 2018 primarily due to a

decrease in cash used for acquisition and construction of capital assets. 2019 cash flows from investing activities decreased from 2018 due to an increase in cash used for investing activities related to higher 2019 purchases of securities

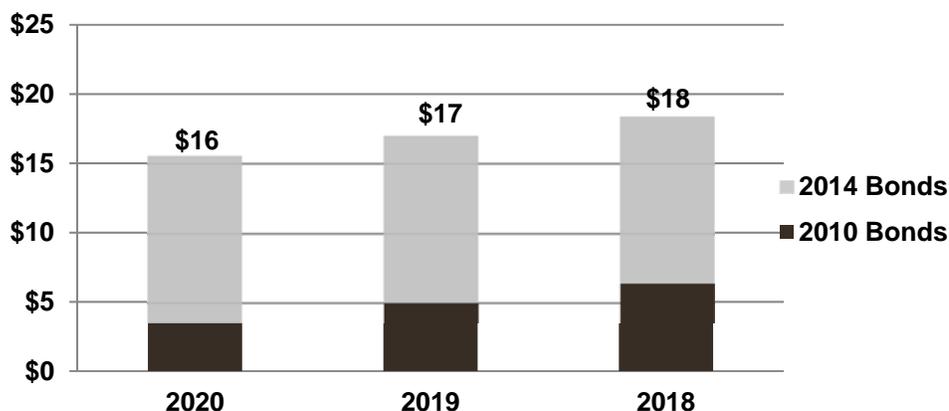
FINANCING

Sufficient liquidity is maintained to ensure working capital is available to meet operating and capital obligations and to fund operating reserves to the targeted levels. Financial projections indicate that NUCorp will maintain adequate liquidity targets over the upcoming five-year period.

There were no bond issuances in 2020 or 2019.

Detail on NUCorp's debt balances and activity are included in Note 5 in the Notes to Financial Statements section of this report. The following chart illustrates detail for the outstanding debt as of June 30

Outstanding Debt (Dollars in millions)



RATINGS

In establishing a company's credit rating, bond ratings agencies take into account both operating characteristics and financial strength. Moody's Investors Service Inc. (Moody's) and Standard & Poor's Ratings Group (S&P) assigned ratings for the 2010 and 2014 (Series B) bond issues. The 2014 QECB (Series A) were privately issued and did not require bond ratings. NUCorp's credit ratings in effect on June 30, 2020 were as follows:

	S&P	Moody's
2014 QECB (Series B)	AA	Aa1
2010 Revenue Bonds	AA	Aa1

Bond reserves for the outstanding bonds are set in accordance with terms stated upon issuance. All reserves are fully funded.

DEBT SERVICE COVERAGE

The following table reflects the calculation of the debt service coverage ratio. The ratio reflects NUCorp's year-end funds available to pay its debt service. NUCorp's bond resolution establishes a debt service coverage requirement of 1.10.

	2020	2019	2018
Operating Revenues	\$ 28,482,485	\$ 30,126,063	\$ 30,406,111
Administration	(948,449)	(1,027,988)	(895,678)
Steam	(5,310,025)	(6,177,268)	(5,684,569)
General Operating and Maintenance	(1,093,790)	(1,722,610)	(1,301,000)
Electric	(6,810,702)	(7,324,971)	(7,737,378)
Water/Sewer	(173,079)	(104,068)	(127,064)
Chilled Water	(4,172,363)	(3,522,505)	(4,048,201)
Municipal Utility Services	(347,738)	(361,809)	(303,419)
Cooling Tower Water Loop	(42,983)	(37,329)	(46,236)
CRES	(141,772)	(186,013)	(152,739)
Total Operating Expenses (excluding depreciation)	(19,040,901)	(20,464,561)	(20,296,284)
Net Operating Revenue	9,441,584	9,661,502	10,109,827
Investment Income	342,131	305,716	59,934
Earnings Available for Debt Service	\$ 9,783,715	\$ 9,967,218	\$ 10,169,761
Debt Service	\$ 2,426,895	\$ 2,453,363	\$ 2,477,922
DEBT SERVICE COVERAGE	4.03	4.06	4.10

CAPITAL PROGRAM

The following table summarizes capital investments for the fiscal years ended June 30 (2020, 2019 and 2018):

	Actual		
Campus	2020	2019	2018
City	\$ 2,257,433	\$ 3,369,661	\$ 3,906,095
East	654,289	995,487	242,117
Common	50,200	529,002	-
Totals	\$ 2,961,922	\$ 4,894,150	\$ 4,148,212

Actual and budgeted capital expenditures for 2018 through 2021 included the following:

- City Campus:
 - Improvement to the steam tunnel infrastructure to increase safety, reliability and longevity of the steam distribution system.
 - Replacement of the utility plant fuel oil tank to comply with new EPA regulations.
 - Installation of filters that use sand media to remove particles that are too small to be removed by existing chilled water system filtration methods.
 - Replacement of Boiler 6 which was installed in 1969 and has reached the end of its useful life. A new boiler is required to meet campus demand while maintaining adequate steam production redundancy.
 - Repair and upgrade of Chiller 4 to improve efficiency, performance, reliability and lifespan of this unit. It also adds redundancy to the chilled water production system for City Campus.
- East Campus:
 - Steam tunnel infrastructure improvements to increase safety, reliability and longevity of the steam distribution system.
 - Installation of a redundant domestic water booster pump and an emergency generator to increase reliability and fire protection capabilities.
 - Upgrade of Utility Plant Boiler 3 which is nearing the end of its useful life.
- Common
 - The campus utilities masterplan analyzed existing production and distribution systems, future load growth, alternative energy sources, and was used to identify future capital projects.

CONTACT INFORMATION

This financial report is designed to provide a general overview of NUCorp's financial status for the fiscal periods ending 2020, 2019 and 2018. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the NUCorp Chief Financial Officer at 1040 "O" Street, Lincoln, Nebraska 68508.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Balance Sheets
June 30, 2020 and 2019

Assets and Deferred Outflows of Resources

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 3,931,531	\$ 5,581,342
Restricted cash and investments	1,847,838	1,808,837
Accounts receivable	4,154,063	1,836,027
Accrued interest receivable	24,778	27,383
Inventories	92,908	37,905
Total current assets	10,051,118	9,291,494
Noncurrent Assets		
Cash and investments	10,264,367	6,624,758
Restricted cash and investments	5,010,956	3,926,595
Costs recoverable from future billings	100,430	115,934
Total noncurrent assets	15,375,753	10,667,287
Capital Assets		
Utility plant	86,866,449	81,838,318
Accumulated depreciation	(26,909,578)	(24,009,923)
Construction work-in-progress	2,355,821	4,499,476
Total capital assets	62,312,692	62,327,871
Deferred Outflows of Resources		
Deferred loss on refunded debt	205,975	288,391
Total assets and deferred outflows of resources	\$ 87,945,538	\$ 82,575,043

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 4,798,503	\$ 4,346,079
Current portion of long-term debt	1,515,000	1,440,000
Accrued interest payable	332,838	368,837
Total current liabilities	6,646,341	6,154,916
Long-term Debt, Net		
Total liabilities	14,134,083	15,727,210
Total liabilities	20,780,424	21,882,126
Net Position		
Net investment in capital assets	46,456,598	45,857,185
Restricted for debt service	5,525,956	4,366,595
Unrestricted	15,182,560	10,469,137
Total net position	67,165,114	60,692,917
Total liabilities and net position	\$ 87,945,538	\$ 82,575,043

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues	\$ 28,482,485	\$ 30,126,063
Operating Expenses		
Administration	948,449	1,027,988
Steam	5,310,025	6,177,268
General operating and maintenance	1,093,790	1,722,610
Electric	6,810,702	7,324,971
Water/sewer	173,079	104,068
Chilled water	4,172,363	3,522,505
Municipal utility services	347,738	361,809
Cooling tower water loop	42,983	37,329
CRES services	141,772	186,013
Depreciation	2,977,101	2,955,370
Total operating expenses	22,018,002	23,419,931
Operating income	6,464,483	6,706,132
Nonoperating Income (Expenses)		
Interest expense on long-term debt	(705,965)	(751,305)
Investment income	342,131	305,716
Interest rate subsidy – QECCB	387,052	387,761
Net costs recoverable	(15,504)	(18,294)
Loss on disposal of plant asset	-	(42,531)
Total nonoperating income (expenses)	7,714	(118,653)
Change in Net Position	6,472,197	6,587,479
Net position – Beginning of Year	60,692,917	54,105,438
Net position – End of Year	\$ 67,165,114	\$ 60,692,917

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Received from sales to customers and users	\$ 26,164,449	\$ 30,402,354
Paid to suppliers for goods and services	(19,464,599)	(19,753,473)
Net cash flow provided by operating activities	6,699,850	10,648,881
Capital and Related Financing Activities		
Capital expenditures for utility plant	(2,140,803)	(4,480,850)
Principal payments on long-term debt	(1,440,000)	(1,420,000)
Interest payments on long-term debt	(737,675)	(808,675)
Interest rate subsidy – QECB	387,052	579,847
Net cash flows used in capital and related financing activities	(3,931,426)	(6,129,678)
Investing Activities		
Net purchases of investments	(4,969,152)	(7,353,178)
Interest received	337,025	283,949
Net cash flows used in investing activities	(4,632,127)	(7,069,229)
Net Change in Cash and Cash Equivalents	(1,863,703)	(2,550,026)
Cash and Cash Equivalents - Beginning of Year	6,080,154	8,630,180
Cash and Cash Equivalents - End of Year	\$ 4,216,451	\$ 6,080,154
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Current assets		
Cash and cash equivalents	\$ 3,931,531	\$ 5,581,342
Restricted cash and investments	1,847,838	1,808,837
Noncurrent assets		
Cash and investments	10,264,367	6,624,758
Restricted cash and investments	5,010,956	3,926,595
Total cash and investments	21,054,692	17,941,532
Less: investments not classified as cash equivalents	(16,838,241)	(11,861,378)
	\$ 4,216,451	\$ 6,080,154

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows – Continued
Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 6,464,483	\$ 6,706,132
Noncash items included in operating income		
Depreciation	2,977,101	2,955,370
Changes in operating assets and liabilities		
Accounts receivable	(2,318,036)	276,291
Inventories	(55,003)	8,151
Accounts payable	(368,695)	702,937
Net cash provided by operating activities	\$ 6,699,850	\$ 10,648,881
Supplemental Non-cash Activities		
Capital expenditures in accounts payable	\$ 1,412,986	\$ 591,867

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2020 and 2019

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Nebraska Utility Corporation (NUCorp), a public benefit corporation, was organized on May 17, 2001 for the purpose of purchasing, leasing, constructing, and financing facilities and acquiring services in order to furnish energy requirements, utility and infrastructure facilities, and all related energy, utility, and infrastructure services to the University of Nebraska Lincoln (UNL). Operations commenced in January 2002. UNL is the primary user of the energy generated by NUCorp and accounts for all of NUCorp's operating revenues.

The Board of Directors consists of five members. Three members are appointed by the University of Nebraska Board of Regents and two members are appointed by Lincoln Electric System. NUCorp is included as a component unit in the financial statements of the University of Nebraska.

Basis of Accounting and Presentation

The financial statements of NUCorp have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements are reported using the economic resource measurement focus and use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange transaction takes place.

NUCorp's accounting policies also follow the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to customers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2020 and 2019

Cash Equivalents

NUCorp considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At June 30, 2020 and 2019, cash equivalents consisted of money market funds, commercial paper and short-term U.S. agency obligations.

Investments and Investment Income

Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. Treasury securities and U.S. agency obligations are carried at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair value is based on quoted market prices. Investment income includes interest income and the net change for the period in the fair value of investments.

Revenue Recognition

Revenues are recorded based on the period of customer usage. Billings for revenues are rendered on a monthly basis.

Accounts Receivable

Customer receivables are due entirely from UNL. An allowance for uncollectible accounts was not considered necessary at June 30, 2020 and 2019.

Inventory Pricing

Inventories, consisting of fuel oil, are valued at the lower of cost or market utilizing the average cost method.

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are not included in the determination of the change in net position until such costs are expected to be recovered through rates charged to customers, in accordance with GASB Codification Section Re10, *Regulated Operations*. At June 30, 2020 and 2019, costs recoverable from future billings were comprised entirely of costs incurred in relation to NUCorp's debt issuances.

Capital Assets

Capital assets are recorded at historical cost. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase of projects financed with bond proceeds is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2020 and 2019

NUCorp capitalizes assets with an original cost of \$5,000 or more with asset life expectancy of more than one year. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred. Capital assets in service are depreciated using the straight-line method over a five to twenty-five-year period.

Upon the formation of NUCorp, the existing energy assets of UNL continue to be maintained and operated by UNL staff. NUCorp reimburses UNL for operation costs. Capital investments financed with bond proceeds and operating revenues are accounted for by NUCorp.

Net Position Classification

Net position is required to be classified into three components, which are net investment in capital assets, restricted and unrestricted. These classifications are defined as follows.

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds at period-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of the net amount of the assets and liabilities that do not meet the definition of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is NUCorp's policy to use restricted resources first, then unrestricted as they are needed.

Classification of Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with NUCorp's principal ongoing operations. The principal operating revenues of NUCorp are charges to customers for services. Operating expenses for NUCorp include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating income and expenses.

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Charges for Services

Revenues are based on rates authorized by the Board of Directors. New rates are authorized annually based on the approved budget. Rate changes can occur more frequently with notice to the customer. Revenues are recognized and billed on a monthly basis as earned.

Income Taxes

NUCorp is a public benefit corporation established under the Nebraska Nonprofit Corporation Act and is exempt from federal and state income taxes.

Note 2: Deposits and Investments

Deposits

State statutes require banks either to give a bond or pledge government securities (types of which are specifically identified in the statutes) to NUCorp in the amount of all deposits. The statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the \$250,000 FDIC insured limits are covered by collateral held in a pledge account for NUCorp.

Investments

NUCorp may invest in U.S. Government securities and agencies, federal instrumentalities of the United States, repurchase agreements, corporate issues, money market mutual funds, interest bearing time deposits or savings accounts, state and/or local government taxable and/or tax-exempt debt and other fixed term investments as designated in the NUCorp investment policy.

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NUCorp had the following investments as of June 30:

June 30, 2020	Carrying Value	Maturities in Years		Credit Ratings Moody's / S&P
		Less Than 1	1 - 5	
Money market mutual funds	\$ 2,298,486	\$ 2,298,486	\$ -	Aaa-mf / AAAM
U.S. agency obligations	13,929,133	8,483,942	5,445,191	Aaa / AA+
U.S. Treasury securities	<u>2,901,397</u>	<u>2,901,397</u>	<u>-</u>	Aaa / AA+
	<u>\$ 19,129,016</u>	<u>\$ 13,683,825</u>	<u>\$ 5,445,191</u>	

June 30, 2019	Carrying Value	Maturities in Years		Credit Ratings Moody's / S&P
		Less Than 1	1 - 5	
Money market mutual funds	\$ 2,476,528	\$ 2,476,528	\$ -	Aaa-mf / AAAM
U.S. agency obligations	9,947,591	9,947,591	-	Aaa / AA+
U.S. Treasury securities	<u>1,913,788</u>	<u>1,913,788</u>	<u>-</u>	Aaa / AA+
	<u>\$ 14,337,907</u>	<u>\$ 14,337,907</u>	<u>\$ -</u>	

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. NUCorp has a formal investment policy that limits investment maturities with the intent of managing its exposure to fair value losses arising from increasing interest rates. It is NUCorp's principal investment strategy to buy and hold securities to maturity, which reduces interest rate risk.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Corporate issues, state and/or local government taxable and/or tax-exempt debt and money market funds are the only current investment types that require a minimum specific rating. All such investments held as of June 30, 2020 and 2019 met minimum credit ratings as required by NUCorp's investment policy.

Custodial credit risk - For an investment, custodial credit risk is that, in the event of a failure of the counterparty, NUCorp would not be able to recover the value of its investment securities that are in the possession of an outside party. All investments are held in NUCorp's name, as required by the investment policy.

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Concentration of credit risk - Concentration of credit risk is the risk associated with the amount of investments NUCorp has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. NUCorp's investment policy places the following limits on the amount that may be invested in any one type of investment and/or issuer.

Investment Type	Portfolio Composition	Limits of Individual Issuers	Maturity Limitations
U.S. Government securities	100%	None	10 years
U.S. Government agencies	100%	None	10 years
Federal instrumentalities	100%	None	10 years
Instrumentalities of the U.S.	20%	5%	10 years
Interest-bearing time deposit or savings accounts	100%	15%	5 years
Repurchase agreements	50%	15%	90 days
Corporate issues	50%	5%	
Bankers' acceptances			180 days
Commercial paper			270 days
Corporate notes			5 years
Money market mutual funds	100%	25%	N/A
State and/or local government taxable and/or tax-exempt debt	30%	5%	3 years
Other fixed term investments	25%	25%	5 years

NUCorp had the following investment concentrations as of June 30:

	2020	2019
U.S. sponsored agency obligations		
Federal Farm Credit Banks	28.48%	28.02%
Federal Home Loan Mortgage Corporation	25.30%	0.00%
Federal Home Loan Bank	19.07%	31.64%
Federal Agricultural Mortgage Association	0.00%	6.95%

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Summary of Carrying Values

The carrying values of deposits and investments were included in the balance sheets as of June 30 as follows:

	<u>2020</u>	<u>2019</u>
Deposits	\$ 1,925,676	\$ 3,603,625
Investments	19,129,016	14,337,907
	<u>\$ 21,054,692</u>	<u>\$ 17,941,532</u>
	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents		
Operating funds	\$ 3,931,531	\$ 5,581,342
Restricted cash and investments		
Bond principal and interest funds	1,847,838	1,808,837
Noncurrent assets		
Cash and investments - construction funds	10,264,367	6,624,758
Restricted cash and investments		
Bond reserve funds	1,073,103	1,034,772
Bond principal and interest funds	3,937,853	2,891,823
	<u>\$ 21,054,692</u>	<u>\$ 17,941,532</u>

Note 3: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020 and 2019:

June 30, 2020	Level 1	Level 2	Level 3	Total
U.S. Agency obligations	\$ -	\$ 13,929,133	\$ -	\$ 13,929,133
U.S. Treasury securities	-	2,901,397	-	2,901,397
Totals	<u>\$ -</u>	<u>\$ 16,830,530</u>	<u>\$ -</u>	<u>\$ 16,830,530</u>

June 30, 2019	Level 1	Level 2	Level 3	Total
U.S. Agency obligations	\$ -	\$ 9,947,591	\$ -	\$ 9,947,591
U.S. Treasury securities	-	1,913,788	-	1,913,788
Totals	<u>\$ -</u>	<u>\$ 11,861,379</u>	<u>\$ -</u>	<u>\$ 11,861,379</u>

Note 4: Capital Assets

Capital assets balances as of June 30 and activity for the fiscal years ended June 30 were as follows:

	July 1, 2019	Increase	Decrease	Transfers	June 30, 2020
Construction work-in-progress	\$ 4,499,476	\$ 2,884,020	\$ -	\$ (5,027,675)	\$ 2,355,821
Utility plant	81,838,318	77,902	(77,446)	5,027,675	86,866,449
Less: accumulated depreciation	<u>(24,009,923)</u>	<u>(2,977,101)</u>	<u>77,446</u>	<u>-</u>	<u>(26,909,578)</u>
Totals	<u>\$ 62,327,871</u>	<u>\$ (15,179)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,312,692</u>
	July 1, 2018	Increase	Decrease	Transfers	June 30, 2019
Construction work-in-progress	\$ 256,656	\$ 4,679,836	\$ -	\$ (437,016)	\$ 4,499,476
Utility plant	81,503,841	214,314	(316,853)	437,016	81,838,318
Less: accumulated depreciation	<u>(21,328,875)</u>	<u>(2,955,370)</u>	<u>274,322</u>	<u>-</u>	<u>(24,009,923)</u>
Totals	<u>\$ 60,431,622</u>	<u>\$ 1,938,780</u>	<u>\$ (42,531)</u>	<u>\$ -</u>	<u>\$ 62,327,871</u>

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Note 5: Long-Term Debt

The outstanding revenue bonds and direct placement bonds contain a provision that in an event of default, owners of not less than 25% of the principal amount of the bonds outstanding can appoint a receiver, who if empowered, can bring suit against NUCorp for any principal and interest payments that are delinquent.

The official statement defines an event of default as missing principal and/or interest payments on the due date for a period of 30 days, failure to observe and perform any of its other covenants, conditions or agreements under the resolution within 90 days of receipt of written notice from the owners of not less than 25% in aggregate principal amount of bonds then outstanding, failure of the corporation to generally pay its debts as they become due, or failure to act within 90 days of action brought against the corporation under the Federal bankruptcy laws, or any other applicable Federal or state bankruptcy, insolvency or similar law. These bonds are uncollateralized.

Revenue Bonds

Revenue bonds are payable from and secured by a pledge of NUCorp's revenues subject to the prior payment therefrom of the operations and maintenance expenses. All bond proceeds are utilized to finance capital construction costs.

NUCorp's outstanding revenue bonds consist of Series 2010 and Series 2014B totaling \$3,550,000 and \$5,500,000, respectively, as of June 30, 2020. These revenue bonds are secured by the net revenues of NUCorp.

Direct Placement Bonds

NUCorp's outstanding direct placement revenue bonds consist of Series 2014A totaling \$6,500,000 as of June 30, 2020. These direct placement revenue bonds are secured by the net revenues of NUCorp.

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Long-term debt consisted of the following as of June 30:

	<u>Date Callable</u>	<u>2020</u>	<u>2019</u>
Revenue Bonds			
Series 2010 bonds, due in varying amounts through 2022, interest at 1.00% to 5.00%	2021	\$ 3,550,000	\$ 4,990,000
Series 2014B bonds, due on January 1, 2033, interest at 5.00%	2024	5,500,000	5,500,000
Revenue Bonds (direct placement)			
Series 2014A bonds, due on January 1, 2033, interest at 3.40%	Anytime	6,500,000	6,500,000
Net unamortized bond premiums		99,083	177,210
Less: current maturities		<u>(1,515,000)</u>	<u>(1,440,000)</u>
		<u>\$ 14,134,083</u>	<u>\$ 15,727,210</u>

Long-term debt activity for the fiscal years ended June 30 was as follows:

	<u>July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2020</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 10,490,000	\$ -	\$(1,440,000)	\$ 9,050,000	\$ 1,515,000
Revenue bonds (direct placement)	6,500,000	-	-	6,500,000	-
Total	<u>\$ 16,990,000</u>	<u>\$ -</u>	<u>\$(1,440,000)</u>	<u>\$15,500,000</u>	<u>\$ 1,515,000</u>
	<u>July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2019</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 11,910,000	\$ -	\$(1,420,000)	\$ 10,490,000	\$ 1,440,000
Revenue bonds (direct placement)	6,500,000	-	-	6,500,000	-
Total	<u>\$ 18,410,000</u>	<u>\$ -</u>	<u>\$(1,420,000)</u>	<u>\$ 16,990,000</u>	<u>\$ 1,440,000</u>

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Debt service requirements as of June 30, 2020 were as follows:

Year Ending June 30,	Revenue Bonds		Revenue Bonds (Direct Placement)	
	Principal	Interest	Principal	Interest
2021	\$ 1,515,000	\$ 444,545	\$ -	\$ 221,130
2022	2,035,000	368,795	-	221,130
2023	-	275,000	-	221,130
2024	-	275,000	-	221,130
2025	-	275,000	-	221,130
2026-2030	-	1,375,000	-	1,105,650
2031-2033	5,500,000	825,000	6,500,000	663,390
Totals	<u>\$ 9,050,000</u>	<u>\$ 3,838,340</u>	<u>\$ 6,500,000</u>	<u>\$ 2,874,690</u>

The Series 2014A and 2014B bonds were issued as Qualified Energy Conservation Bonds (QECB) under provisions of the Internal Revenue Code. NUCorp expects to receive a cash subsidy payment from the United States Treasury equal to 70% of the interest payable on the Series 2014A and 2014B bonds. The subsidy payment is contingent on federal regulations and is subject to change. NUCorp recorded income from this subsidy of \$387,052 and \$387,761, during the years ended June 30, 2020 and 2019, respectively.

Note 6: Related Party Transactions

The Board of Directors, under a management agreement which terminates in 2026 or when all long-term indebtedness of NUCorp has been paid (current final maturity in 2033), has appointed Lincoln Electric System (LES) to supervise and manage system and business affairs of NUCorp. LES is reimbursed for these management services based on the allocated actual cost of these services. LES also provides electric energy to NUCorp at an established interruptible industrial rate. The total amount of payments to LES for management, operations and maintenance services was \$116,919 and \$141,257 for the years ended June 30, 2020 and 2019, respectively. The total amount of payments to LES for energy was \$8,206,616 and \$8,211,510 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, approximately \$679,357 or 14% and \$1,275,929 or 29%, respectively, of accounts payable was owed to LES.

UNL personnel contracts and manages major construction projects occurring on UNL's campuses. UNL initially pays the costs of the construction projects and is subsequently reimbursed by NUCorp.

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Note 7: Risk Management

NUCorp is subject to various risks of loss related to general liability and property. NUCorp is insured through UNL, who is partially self-insured to cover these risks.

Note 8: Subsequent Event

As a result of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of NUCorp. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.