

Nebraska Utility Corporation

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

June 30, 2015



Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
June 30, 2015

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Independent Auditor's Report

Board of Directors
Nebraska Utility Corporation
Lincoln, Nebraska

We have audited the accompanying basic financial statements of Nebraska Utility Corporation, a component unit of the University of Nebraska, which are comprised of a balance sheet as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Utility Corporation as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 1, 2015

Nebraska Utility Corporation

Management's Discussion and Analysis

For the 12-month Period Ended June 30, 2015 as Compared to the 18-month Period Ended June 30, 2014

SIGNIFICANT EVENTS

- Replacement of the City Campus North Cooling Tower project was substantially completed in 2014 and the tower was placed in operation in 2015.
- The East Campus natural gas distribution system ownership has been transferred to the local gas distribution company, Black Hills Energy. Replacement of the old gas distribution piping and metering will be completed in the fall of 2015.
- The fiscal year end for Nebraska Utility Corporation (NUCorp) was changed in 2014 from December 31 of each year to June 30. As a result of this change, analysis of NUCorp's financial activities in the Management's Discussion and Analysis (MD&A) section of the Financial Report consists of a 12-month period ended June 30, 2015 and an 18-month period ended June 30, 2014.

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 NUCorp's financial position and operating results for the 12-month period ended June 30, 2015 and the 18-month period ended June 30, 2014. 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 financial health.

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

CONDENSED BALANCE SHEETS

	June 2015	June 2014
Current Assets	\$ 18,351,271	\$ 19,028,480
Noncurrent Assets	2,451,830	2,472,318
Capital Assets	38,108,823	30,552,492
Deferred Outflows of Resources	618,055	700,471
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 59,529,979	\$ 52,753,761
Current Liabilities	\$ 5,618,709	\$ 5,428,239
Noncurrent Liabilities	21,791,689	23,216,117
TOTAL LIABILITIES	27,410,398	28,644,356
Net Investment in Capital Assets	15,308,111	13,082,533
Restricted	2,505,068	1,661,574
Unrestricted	14,306,402	9,365,298
TOTAL NET POSITION	32,119,581	24,109,405
TOTAL LIABILITIES AND NET POSITION	\$ 59,529,979	\$ 52,753,761

Comparison of 2015 to 2014

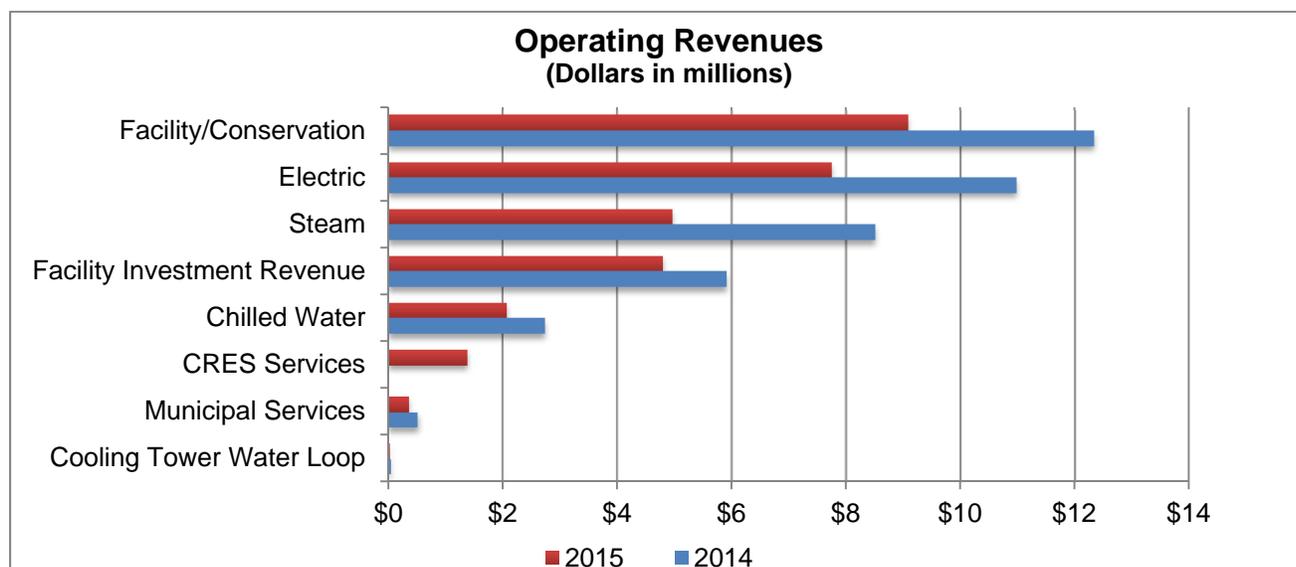
Total assets and deferred outflows of resources increased \$6,776,218 or 13% in 2015 as compared to 2014. Current assets decreased \$677,209 due to the use of construction funds for the Central Renewable Energy System (CRES) project partially offset by an increase in operating funds due to customer receipts being greater than expenses. Capital assets increased \$7,556,331 due to capital spending for construction projects, net of depreciation. Deferred outflows of resources, which consist of deferred losses on refunded debt, decreased \$82,416 due to 12 months of amortization.

Total liabilities decreased \$1,233,958 or 4% in 2015 as compared to 2014. Current liabilities increased \$190,470 due to increased purchases of goods and services for operating expenses. Noncurrent liabilities decreased \$1,424,428 primarily due to a principal payment for the revenue bonds.

Net position increased \$8,010,176 or 33% in 2015 over 2014 based on results of operations.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	July 2014 – June 2015	January 2013 – June 2014
Operating Revenues	\$ 30,405,601	\$ 40,999,926
Operating Expenses	21,859,779	33,360,292
Operating Income	8,545,822	7,639,634
Interest Expense (Net of Interest Rate Subsidy)	(534,044)	(702,573)
Other Non-Operating Expense/Income	(1,602)	(20,131)
Total Non-Operating Expense/Income	(535,646)	(722,704)
CHANGE IN NET POSITION	\$ 8,010,176	\$ 6,916,930

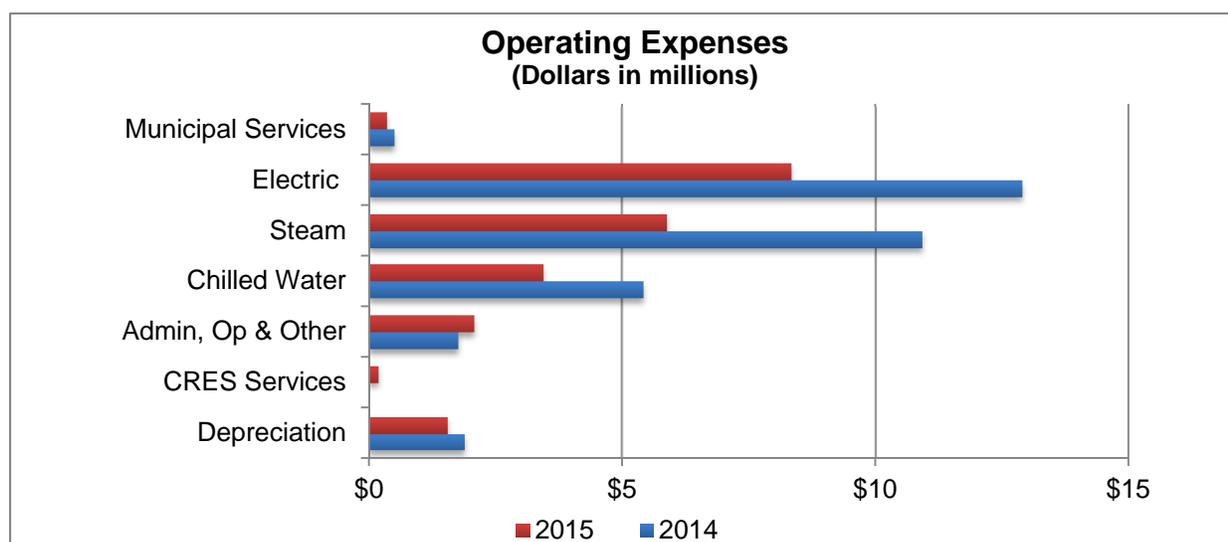


OPERATING REVENUES

Comparison of 2015 (12 months) to 2014 (18 months)

Operating revenues in 2015 were \$30,405,601, a decrease of \$10,594,325 or 26% as compared to 2014 operating revenues of \$40,999,926. Comparing 12 months to 18 months of revenue and energy sales in 2015 and 2014, respectively, was the primary reason for the decrease. The decrease was partially offset by a system wide rate adjustment of 3% that was implemented July 1, 2014 and revenues from sales of thermal services from the CRES plant. CRES was placed in commercial operation in August 2014.

OPERATING EXPENSES



Comparison of 2015 (12 months) to 2014 (18 months)

Operating expenses in 2015 were \$21,859,779, a decrease of \$11,500,513 or 34% from 2014 operating expenses of \$33,360,292. Comparing 12 months to 18 months of expenses in 2015 and 2014, respectively, contributed to the decrease. Electric and Steam expenses were also lower in 2015 as compared to 2014 due to a decrease in consumption as a result of milder weather and lower natural gas prices. Administrative, Operations and Other expenses increased due to a reallocation of administrative labor expenses from the Electric, Steam and Chilled Water expense classifications to this classification.

CASH AND FINANCING ACTIVITIES

CONDENSED STATEMENTS OF CASH FLOWS

	July 2014 – June 2015	January 2013 – June 2014
Cash Flows from Operating Activities	\$ 10,274,247	\$ 9,903,120
Cash Flows from Capital and Related Financing Activities	(10,925,231)	1,202,696
Cash Flows from Investing Activities	(4,151,698)	(5,484,857)
CHANGE IN CASH & CASH EQUIVALENTS	\$ (4,802,682)	\$ 5,620,959

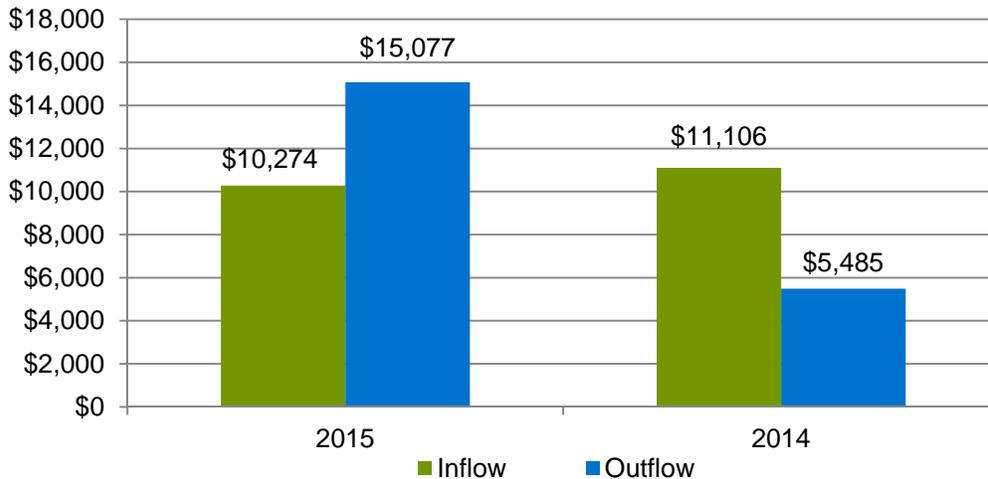
Cash flows from operating activities contain transactions involving customers and suppliers.

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 2015 (12 months) to 2014 (18 months)

Cash flows from operating activities for 2015 increased \$371,127 over 2014 as a result of commodity rate changes effective July 1, 2014 and sales from the Central Renewable Energy System (CRES) plant which was placed in commercial operation in August 2014. Net cash outflows from capital and related financing activities for 2015 increased \$12,127,927 over 2014 net cash inflows due to cash used for the acquisition and construction of capital assets and due to the proceeds from Qualified Energy Conservation Bonds (QECB) financing in 2014 which reduced the cash outflows in 2014. Net cash outflows from investing activities for 2015 decreased \$1,333,159 from 2014 due to fewer purchases of investments.

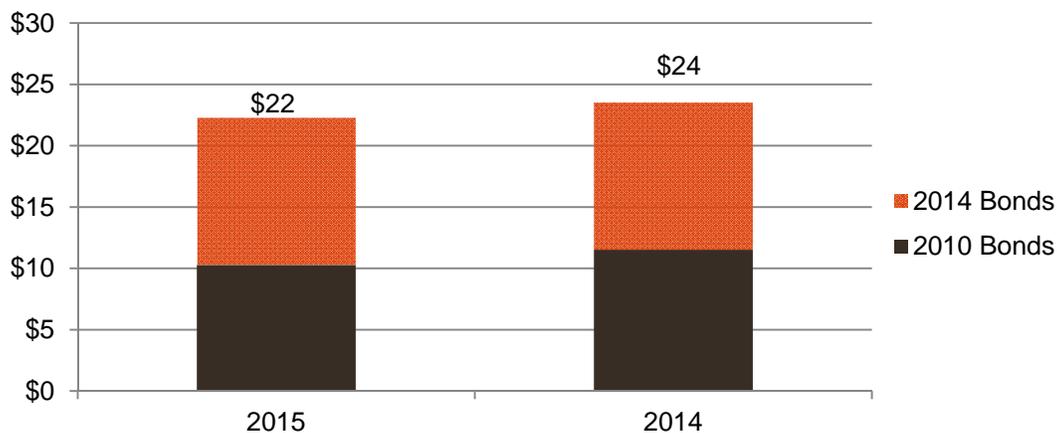
FINANCING

There were no bond issuances in 2015.

During 2014, NUCorp issued \$12,000,000 in QECB which mature in 2033. Proceeds from the bonds were used for construction expenditures related to the CRES project. The bonds are supported by the cash funds of the University of Nebraska.

Outstanding Debt

(Dollars in millions)



RATINGS

In establishing a company's credit rating, bond rating 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.

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

Bond reserves 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.

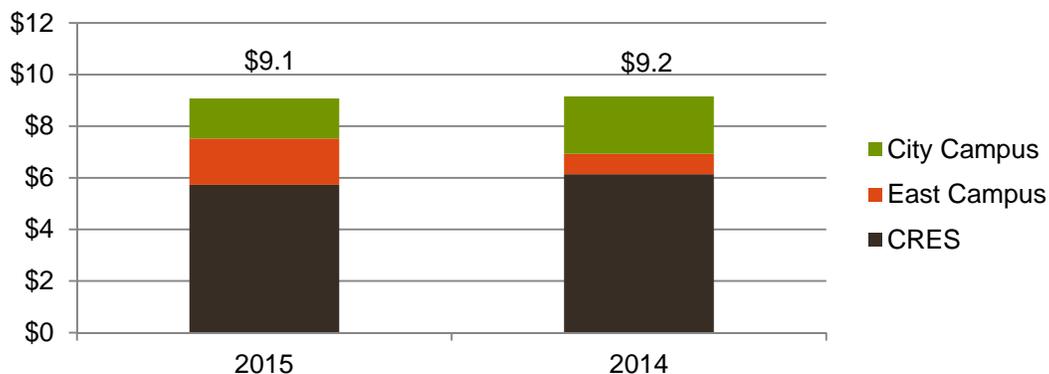
DEBT SERVICE COVERAGE

	July 2014 – June 2015	January 2013 - June 2014
Operating Revenues	\$ 30,405,601	\$ 40,999,926
Administration	(292,020)	(551,459)
Steam	(5,883,082)	(10,901,625)
General Operating and Maintenance	(1,575,090)	(1,042,755)
Electric	(8,327,783)	(12,882,325)
Water/Sewer	(185,992)	(133,679)
Chilled Water	(3,444,654)	(5,409,275)
Municipal Utility Services	(354,904)	(512,619)
Cooling Tower Water Loop	(26,369)	(34,241)
CRES	(205,404)	-
Total Operating Expenses (excluding depreciation)	(20,295,298)	(31,467,978)
Net Operating Revenue	10,110,303	9,531,948
Interest Income	27,180	19,271
Earnings Available for Debt Service	\$ 10,137,483	\$ 9,551,219
Debt Service	\$ 2,522,917	\$ 3,037,066
DEBT SERVICE COVERAGE	4.02	3.14

CAPITAL

Capital Expenditures

(Dollars in millions)



Significant capital projects in progress during 2015 include:

- City Campus
 - Replacement of the City Campus east cooling tower project is expected to be completed in fall 2015, with full commissioning to be completed during the 2016 cooling season. This project involves replacement of the existing cooling tower to increase reliability of the campus cooling system and to reduce operations and maintenance costs. The budgeted project cost is \$2,550,000.
- East Campus
 - The construction of the East Campus chiller addition began in March 2015 and will reach substantial completion in April 2016. This project will improve the campus chilled water system efficiency and reliability by adding a high efficiency chiller and “free cooling” heat exchangers to operate with the existing thermal storage system. The budgeted project cost is \$6,336,000.

CONTACT INFORMATION

This Financial Report is designed to provide a general overview of NUCorp’s financial status for fiscal periods ending 2015 and 2014. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the NUCorp Manager of Administration at 1040 “O” Street, Lincoln, Nebraska 68508.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Balance Sheet
June 30, 2015

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$ 2,999,100
Investments	11,156,653
Restricted cash and investments	2,141,080
Accounts receivable	1,980,028
Accrued interest receivable	10,691
Inventories	63,719
	18,351,271
Total current assets	18,351,271

Noncurrent Assets

Restricted cash and investments	2,246,988
Costs recoverable from future billings	204,842
	2,451,830
Total noncurrent assets	2,451,830

Capital Assets

Utility plant	47,369,843
Accumulated depreciation	(15,436,201)
Construction work-in-progress	6,175,181
	38,108,823
Total capital assets	38,108,823

Deferred Outflows of Resources

Deferred loss on refunded debt	618,055
	618,055
Total assets and deferred outflows of resources	\$59,529,979

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 3,892,746
Current portion of long-term debt	1,225,000
Accrued interest payable	500,963
	5,618,709
Total current liabilities	5,618,709

Long-term Debt, Net

Total liabilities	21,791,689
	27,410,398

Net Position

Net investment in capital assets	15,308,111
Restricted for debt service	2,505,068
Unrestricted	14,306,402
	32,119,581
Total net position	32,119,581
Total liabilities and net position	\$59,529,979

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

Operating Revenues	<u>\$30,405,601</u>
Operating Expenses	
Administration	292,020
Steam	5,883,082
General operating and maintenance	1,575,090
Electric	8,327,783
Water/sewer	185,992
Chilled water	3,444,654
Municipal utility services	354,904
Cooling tower water loop	26,369
CRES services	205,404
Depreciation	<u>1,564,481</u>
Total operating expenses	<u>21,859,779</u>
Operating income	<u>8,545,822</u>
Nonoperating Income (Expenses)	
Interest expense on long-term debt	(910,729)
Investment income	27,180
Interest rate subsidy	376,685
Net costs recoverable	<u>(28,782)</u>
Total nonoperating expenses	<u>(535,646)</u>
Capital Contributions	124,059
Reduction of Plant Costs Recovered through Capital Contributions	<u>(124,059)</u>
Change in Net Position	8,010,176
Net Position - Beginning of Year	<u>24,109,405</u>
Net Position - End of Year	<u><u>\$32,119,581</u></u>

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statement of Cash Flows
For the Year Ended June 30, 2015

Operating Activities	
Received from sales to customers and users	\$ 30,293,943
Paid to suppliers for goods and services	<u>(20,019,696)</u>
Net cash flows provided by operating activities	<u>10,274,247</u>
Capital and Related Financing Activities	
Capital expenditures for utility plant	(9,194,134)
Principal payments on long-term debt	(1,250,000)
Interest payments on long-term debt	(1,013,119)
Interest rate subsidy - QECB	<u>532,022</u>
Net cash flows used in financing activities	<u>(10,925,231)</u>
Investing Activities	
Net purchases of investments	(4,170,953)
Investment income	<u>19,255</u>
Net cash flows used in investing activities	<u>(4,151,698)</u>
Net Change in Cash and Cash Equivalents	(4,802,682)
Cash and Cash Equivalents - Beginning of Year	<u>8,451,215</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 3,648,533</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and cash equivalents	\$ 2,999,100
Investments	11,156,653
Restricted cash and investments - current	2,141,080
Restricted cash and investments - noncurrent	<u>2,246,988</u>
Total cash and investments	18,543,821
Less: investments not classified as cash equivalents	<u>(14,895,288)</u>
	<u><u>\$ 3,648,533</u></u>

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statement of Cash Flows - Continued
For the Year Ended June 30, 2015

**Reconciliation of Operating Income to Net Cash
Provided By Operating Activities**

Operating income	\$ 8,545,822
Noncash items included in operating income	
Depreciation	1,564,481
Changes in operating assets and liabilities	
Accounts receivable	(111,653)
Inventories	1,430
Accounts payable	274,167
	<hr/>
Net cash provided by operating activities	<u>\$ 10,274,247</u>

Supplemental Non-Cash Activities

Capital expenditures in accounts payable	\$ 1,784,111
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Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2015

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. On April 18, 2013, the Board of Directors approved a resolution to change NUCorp's fiscal year-end from December 31st to June 30th to coincide with UNL's fiscal year-end.

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 regulated operations 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, 2015

Note 1: Summary of Significant Accounting Policies - Continued

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, 2015, cash equivalents consisted of money market funds.

Investments and Investment Income

Investments 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 and billings for revenues are rendered on a monthly basis.

Accounts Receivable

Customer receivables are due entirely from UNL. An allowance for uncollectible accounts is not considered necessary at June 30, 2015.

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 the regulated operations provisions of GASB Codification Section Re10, *Regulated Operations*. At June 30, 2015, costs recoverable from future billings are comprised entirely of costs incurred in relation to NUCorp's debt issuances.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies - Continued

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 for bond projects is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. NUCorp capitalizes equipment with an acquisition cost of \$5,000 or more with a 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 five to twenty-five years.

Upon the formation of NUCorp, the existing energy assets of UNL continue to be maintained by UNL and operated by UNL staff. The costs of operation are paid by NUCorp. Any capital additions financed with bond issuance proceeds and revenues from operations are accounted for by NUCorp.

Recovery of Plant Costs

Payments are received from UNL to offset the costs associated with certain capital projects. In order to comply with GASB Codification Section N50, *Nonexchange Transactions*, capital contributions are recorded as income, however to comply with GASB Codification Section Re10, *Regulated Operations*, an offsetting expense in the same amount is also recorded representing the recovery of plant costs.

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.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies - Continued

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.

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 also 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.

Recent Accounting Pronouncements

In 2015, NUCorp implemented the provisions of the following accounting principles:

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The requirements of this Statement will improve accounting and financial reporting by state and local governments by providing specific accounting guidance and requiring disclosures about government combinations and disposals of government operations.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend or receive nonexchange financial guarantees.

The implementation of these standards did not have a significant impact on NUCorp's financial statements.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2015

Note 2: Deposits and Investments

Deposits

State statutes require banks either to give 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). NUCorp's cash deposits are insured up to \$250,000 by the FDIC.

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.

At June 30, 2015, NUCorp had the following investments and maturities:

	Fair Value	Maturities in Years		Credit Ratings Moody's/ S&P
		Less Than 1	1 - 5	
Money market mutual funds	\$ 1,166,598	\$ 1,166,598	\$ -	Aaa-mf / AA+Am
U.S. Treasury securities	2,498,411	2,498,411	-	Aaa / AA+
U.S. agency obligations	12,396,877	10,863,059	1,533,818	Aaa / AA+
	<u>\$ 16,061,886</u>	<u>\$ 14,528,068</u>	<u>\$ 1,533,818</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. NUCorp's investment policy limits investments as described in Note 2. 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.

Custodial credit risk - For an investment, custodial credit risk is the risk 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.

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2015

Note 2: Deposits and Investments - Continued

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

At June 30, 2015, NUCorp had the following investment concentrations:

	<u>Portfolio Composition</u>
U.S. sponsored agency obligations	
Federal National Mortgage Association	6.22%
Federal Home Loan Mortgage Corporation	19.71%
Federal Home Loan Bank	46.89%

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Note 2: Deposits and Investments - Continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet at June 30, 2015 as follows:

Deposits	\$ 2,481,935
Investments	<u>16,061,886</u>
	<u>\$ 18,543,821</u>

Included in the following balance sheet captions at June 30, 2015:

Current assets	
Cash and cash equivalents	
Operating funds	\$ 2,999,100
Investments	
Operating funds	11,156,653
Restricted cash and investments	
Bond principal and interest funds	1,759,047
Construction funds	<u>382,033</u>
	<u>2,141,080</u>
Noncurrent assets	
Restricted cash and investments	
Bond reserve funds	1,010,050
Renewal and replacement fund	<u>1,236,938</u>
	<u>2,246,988</u>
	<u>\$18,543,821</u>

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Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2015 is as follows:

	July 1, 2014	Increase	Decrease	Transfers	June 30, 2015
Construction work-in-progress	\$ 8,941,139	\$9,179,811	\$ 59,000	\$(11,886,770)	\$ 6,175,181
Utility plant	35,483,073	-	-	11,886,770	47,369,843
Less: accumulated depreciation	<u>(13,871,720)</u>	<u>(1,564,481)</u>	<u>-</u>	<u>-</u>	<u>(15,436,201)</u>
Totals	<u>\$ 30,552,492</u>	<u>\$7,615,330</u>	<u>\$ 59,000</u>	<u>\$ -</u>	<u>\$ 38,108,823</u>

During the year ended June 30, 2015, NUCorp had several construction projects in progress including installation of chillers, a thermal energy storage tank, cooling tower upgrades and the Central Renewable Energy System (CRES) project. The CRES project was completed and placed in operation in August 2014. At June 30, 2015, NUCorp has remaining commitments under construction contracts relating to the construction projects in progress of approximately \$2,600,000.

Note 4: Long-Term Debt

Long-term debt consists of the following at June 30, 2015:

		Date Callable
Revenue Bonds		
Series 2010 bonds, due in varying amounts through 2022, interest at 1.00% to 5.00%	\$10,275,000	2021
Series 2014A bonds, due on January 1, 2033, interest at 3.40%	6,500,000	Anytime
Series 2014B bonds, due on January 1, 2033, interest at 5.00%	5,500,000	2024
Net unamortized bond premiums	741,689	
Less: current maturities	<u>(1,225,000)</u>	
	<u>\$21,791,689</u>	

All revenues of NUCorp (after payment of operations and maintenance expenses) are pledged to secure the revenue bonds. All bond proceeds are utilized to finance capital construction costs.

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Note 4: Long-Term Debt - Continued

Long-term debt activity for the year ended June 30, 2015 is as follows:

	July 1, 2014	Increase	Decrease	June 30, 2015	Due Within One Year
Revenue bonds	<u>\$23,525,000</u>	<u>\$ -</u>	<u>\$ 1,250,000</u>	<u>\$ 22,275,000</u>	<u>\$ 1,225,000</u>

Principal and interest requirements to maturity on long-term debt at June 30, 2015 are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,225,000	\$ 1,001,925	\$ 2,226,925
2017	1,290,000	940,675	2,230,675
2018	1,350,000	876,175	2,226,175
2019	1,420,000	808,675	2,228,675
2020	1,440,000	737,675	2,177,675
2021-2025	3,550,000	2,743,990	6,293,990
2026-2030	-	2,480,650	2,480,650
2031-2033	<u>12,000,000</u>	<u>1,488,390</u>	<u>13,488,390</u>
Totals	<u>\$ 22,275,000</u>	<u>\$ 11,078,155</u>	<u>\$ 33,353,155</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. In March 2014, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the QECB subsidy was reduced by 7.3%. NUCorp received a subsidy of approximately \$532,000 during the year ended June 30, 2015.

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Note 5: Related Party Transactions

The Board of Directors, under a 25-year management agreement, 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 expense incurred for LES management, operations and maintenance services for the year ended June 30, 2015 was \$85,755. The total expense incurred for energy provided by LES for the year ended June 30, 2015 was \$9,514,194. At June 30, 2015, approximately \$940,000 or 24% of accounts payable was owed to LES.

Major construction projects occurring on University of Nebraska Lincoln's (UNL) campuses are contracted and managed by UNL personnel. Costs are initially paid by UNL and subsequently reimbursed by NUCorp.

Note 6: Risk Management

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