

Nebraska Utility Corporation

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

June 30, 2016 and 2015



Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
June 30, 2016 and 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 balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years 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 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, 2016 and 2015, and the changes in its financial position and its 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 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
October 11, 2016

Management's Discussion and Analysis (Unaudited)

SIGNIFICANT EVENTS

- The project to replace the East Cooling Tower on City Campus with a similar capacity 4-cell cooling tower has substantially been completed and the newer, more efficient tower, was placed in operation in 2016. The existing wooden cooling tower was at the end of its useful life and was no longer able to provide adequate cooling capacity.
- The project to install a new, 2,500-ton chiller on the East Campus has substantially been completed and is planned to be operational in August 2016. The system will provide additional cooling capacity and is configured to allow the cooling tower installed for the chiller to also provide free cooling during low ambient temperatures.
- Nebraska Utility Corporation's (NUCorp) natural gas purchase program has been modified to allow for limited natural gas purchases above the quantity limits of the program to benefit from the historically low natural gas prices. Natural gas expense is one of NUCorp's most significant budget items.
- The fiscal year end for 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, 2016 and 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 periods ended June 30, 2016 and 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 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

	June 2016	June 2015	June 2014
Current Assets	\$ 7,511,295	\$ 17,936,154	\$ 19,028,480
Noncurrent Assets	13,156,335	2,866,947	2,472,318
Capital Assets	46,241,005	38,108,823	30,552,492
Deferred Outflows of Resources	535,639	618,055	700,471
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 67,444,274	\$ 59,529,979	\$ 52,753,761
Current Liabilities	\$ 7,937,434	\$ 5,618,709	\$ 5,428,239
Noncurrent Liabilities	20,324,905	21,791,689	23,216,117
TOTAL LIABILITIES	28,262,339	27,410,398	28,644,356
Net Investment in Capital Assets	22,425,186	15,308,111	13,082,533
Restricted	2,212,333	2,505,068	1,661,574
Unrestricted	14,544,416	14,306,402	9,365,298
TOTAL NET POSITION	39,181,935	32,119,581	24,109,405
TOTAL LIABILITIES AND NET POSITION	\$ 67,444,274	\$ 59,529,979	\$ 52,753,761

Comparison of 2016 to 2015

Total assets and deferred outflows of resources in 2016 increased \$7,914,295 or 13% over 2015. Current assets decreased primarily due to the realignment of NUCorp's funds to enhance management of liquidity, construction funds and required bond fund balances. Capital assets increased \$8,132,182 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 2016 increased \$851,941 or 3% over 2015. Current liabilities increased \$2,318,725 due to increased expenses for capital investments. Noncurrent liabilities decreased \$1,466,784 primarily due to a principal payment for the revenue bonds.

Net position in 2016 increased \$7,062,354 or 22% over 2015 based on results of operations.

Comparison of 2015 to 2014

Total assets and deferred outflows of resources in 2015 increased \$6,776,218 or 13% over 2014. Current assets decreased due to the use of construction funds for the Central Renewable Energy System Plant (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 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 2015 decreased \$1,233,958 or 4% from 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 in 2015 increased \$8,010,176 or 33% over 2014 based on results of operations.

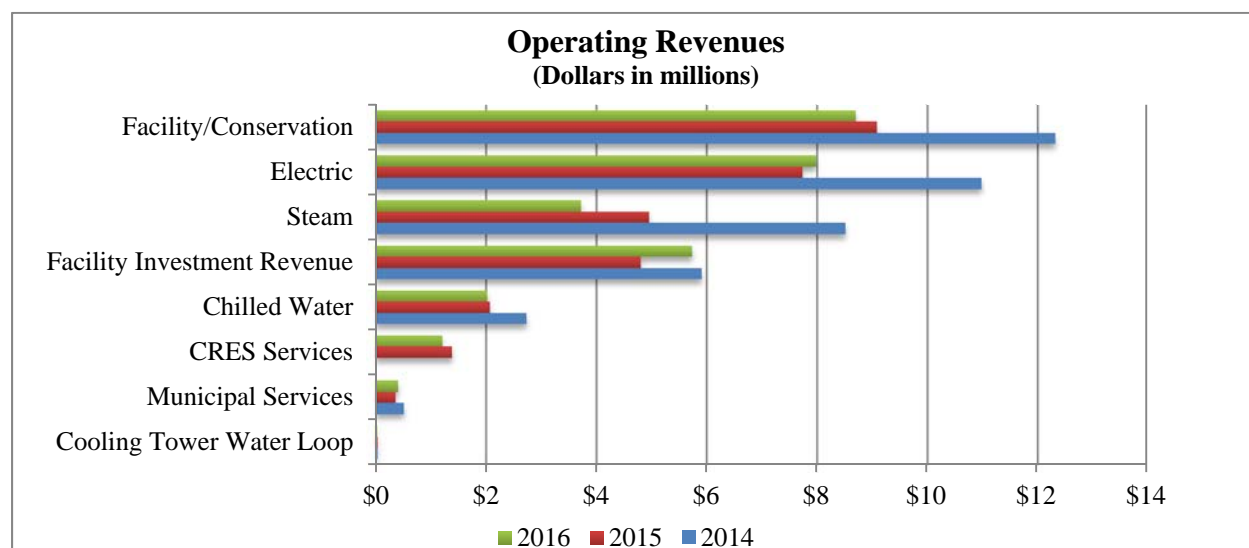
The following table summarizes operating results for the fiscal years ended June 30:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	July 2015 – June 2016	July 2014 – June 2015	January 2013 – June 2014
Operating Revenues	\$ 29,766,742	\$ 30,405,601	\$ 40,999,926
Operating Expenses	22,266,617	21,859,779	33,360,292
Operating Income	7,500,125	8,545,822	7,639,634
Interest Expense (Net of Interest Rate Subsidy)	(493,582)	(534,044)	(702,573)
Other Non-Operating (Expense) Income	55,811	(1,602)	(20,131)
Total Non-Operating Expense	(437,771)	(535,646)	(722,704)
CHANGE IN NET POSITION	\$ 7,062,354	\$ 8,010,176	\$ 6,916,930

OPERATING REVENUES

The following chart illustrates operating revenues by category.



Comparison of 2016 to 2015

Operating revenues for 2016 were \$29,766,742, a decrease of \$638,859 or 2% from 2015 operating revenues of \$30,405,601. The decrease was due to a decrease in sales volume for steam services as a result of milder temperatures and a decrease in rates for these services. The decrease was partially offset by rate changes for other services. Rate changes were implemented on July 1, 2015.

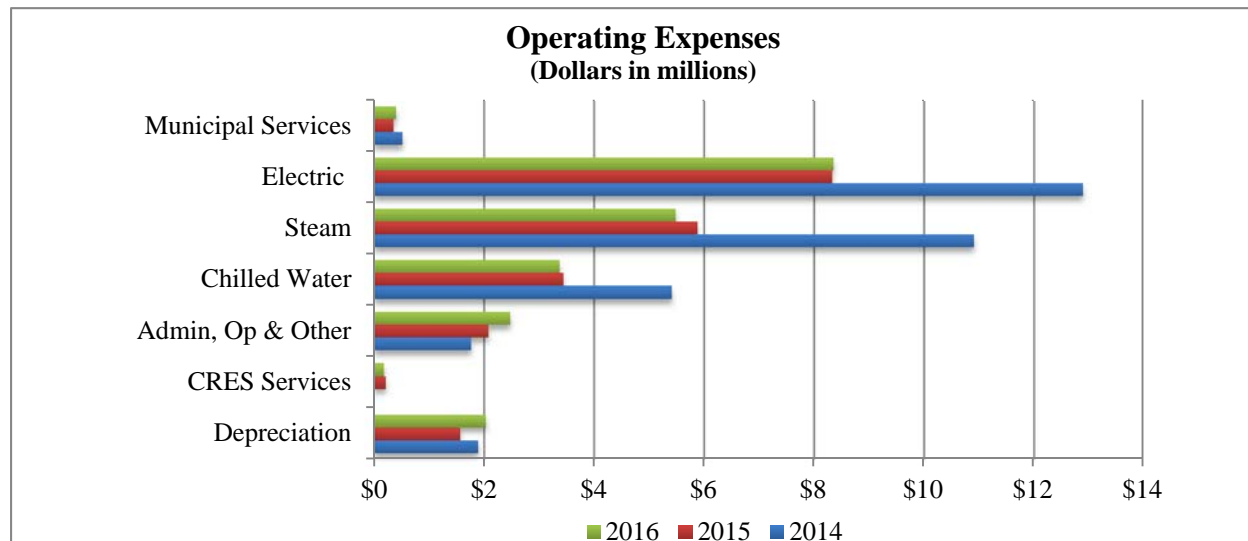
Comparison of 2015 (12 months) to 2014 (18 months)

Operating revenues for 2015 were \$30,405,601, a decrease of \$10,594,325 or 26% from 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 on July 1, 2014 and revenues from sales of thermal

services from the CRES Plant. The CRES Plant was placed in commercial operation in August 2014.

OPERATING EXPENSES

The following chart illustrates operating expenses by category.



Comparison of 2016 to 2015

Operating expenses for 2016 were \$22,266,617, an increase of \$406,838 or 2% over 2015 operating expenses of \$21,859,779. Administration expenses were higher due to a change in allocation of labor costs. Steam expenses were lower in 2016 as compared to 2015 due lower natural gas prices and a decrease in sales volume as a result of milder weather. Depreciation expense was higher due to utility plant additions.

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

Operating expenses for 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 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 classification to this classification.

CASH AND FINANCING ACTIVITIES

Cash and cash equivalents increased \$1,513,297 and \$5,620,959 for fiscal years 2016 and 2014, respectively, and decreased \$4,802,682 for fiscal year 2015. The following table summarizes the cash flows by activities for the fiscal years ended June 30:

CONDENSED STATEMENTS OF CASH FLOWS

	July 2015 – June 2016	July 2014 – June 2015	January 2013 – June 2014
Cash Flows from Operating Activities	\$ 9,819,701	\$ 10,274,247	\$ 9,903,120
Cash Flows from Capital and Related Financing Activities	(10,048,749)	(10,925,231)	1,202,696
Cash Flows from Investing Activities	1,742,345	(4,151,698)	(5,484,857)
CHANGE IN CASH & CASH EQUIVALENTS	\$ 1,513,297	\$ (4,802,682)	\$ 5,620,959

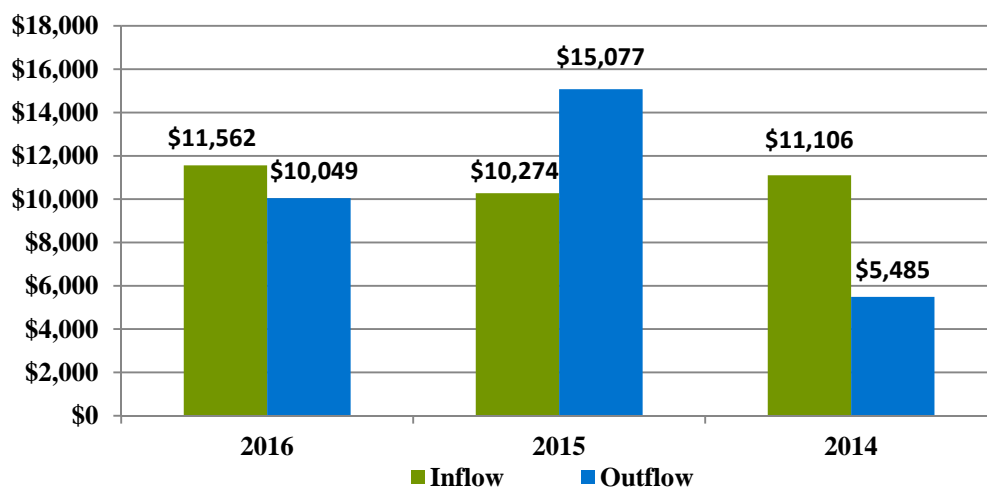
Cash flows from operating activities contain transactions involving customers and suppliers.

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 2016 to 2015

Cash flows from operating activities for 2016 decreased \$454,546 from 2015 as a result of rate changes that were implemented on July 1, 2015 and a decrease in sales volume for steam services due to milder weather conditions. Cash flows used for capital and related financing activities for 2016 decreased \$876,482 from 2015 primarily due to a decrease in cash used for acquisition and construction of capital assets. Cash inflows from investing activities for 2016 increased over 2015 cash used for investing activities primarily due to more maturities and sales of investments.

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 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 (QECCB) 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.

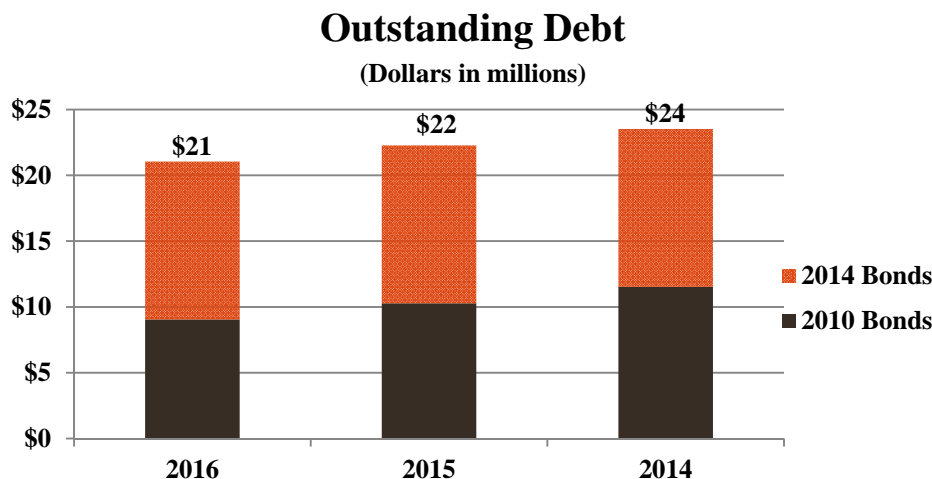
FINANCING

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. NUCorp’s funds were realigned in 2016 to enhance management of liquidity and required bond fund balances. Financial projections indicate that NUCorp will maintain adequate liquidity targets over the upcoming five year period.

There were no bond issuances in 2016 or 2015.

During 2014, NUCorp issued \$12,000,000 in QECCB which mature in 2033. Proceeds from the bond issuance were used for the construction of the CRES Plant. The bonds are supported by the University of Nebraska cash funds.

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:



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 QECCB (Series A) were privately issued and did not require bond ratings. NUCorp’s credit ratings in effect on June 30, 2016 were as follows:

	S&P	Moody’s
2014 QECCB (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 were 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 2015 – June 2016	July 2014 – June 2015	January 2013 - June 2014
Operating Revenues	\$ 29,766,742	\$ 30,405,601	\$ 40,999,926
Administration	(764,123)	(292,020)	(551,459)
Steam	(5,482,496)	(5,883,082)	(10,901,625)
General Operating and Maintenance	(1,497,846)	(1,575,090)	(1,042,755)
Electric	(8,345,399)	(8,327,783)	(12,882,325)
Water/Sewer	(174,715)	(185,992)	(133,679)
Chilled Water	(3,370,679)	(3,444,654)	(5,409,275)
Municipal Utility Services	(401,692)	(354,904)	(512,619)
Cooling Tower Water Loop	(28,803)	(26,369)	(34,241)
CRES	(175,433)	(205,404)	-
Total Operating Expenses (excluding depreciation)	(20,241,186)	(20,295,298)	(31,467,978)
Net Operating Revenue	9,525,556	10,110,303	9,531,948
Interest Income	81,845	27,180	19,271
Earnings Available for Debt Service	\$ 9,607,401	\$ 10,137,483	\$ 9,551,219
Debt Service	\$ 2,480,839	\$ 2,522,917	\$ 3,037,066
DEBT SERVICE COVERAGE	3.87	4.02	3.14

CAPITAL PROGRAM

NUCorp has been undergoing a period of increased capital expansion in terms of capital improvements and new infrastructure. The following table summarizes capital expenses for the fiscal years ended June 30 (12 months for 2017, 2016 and 2015 and 18 months for 2014):

	Budget		Actual	
	2017	2016	2015	2014
City Campus	\$ 8,290,000	\$ 6,536,433	\$ 1,553,377	\$ 2,222,780
East Campus	1,300,000	3,540,109	1,796,914	789,146
CRES	-	-	5,723,059	6,141,011
Totals	<u>\$ 9,590,000</u>	<u>\$ 10,076,542</u>	<u>\$ 9,073,350</u>	<u>\$ 9,152,937</u>

Actual and budgeted capital expenses for 2014 through 2017 included the following:

- City Campus:
 - Replacement of the north and east cooling towers with similar capacity, more efficient cooling towers.
 - Installation of a new utility tunnel, steam piping and chilled water piping to support future buildings constructed south of Vine Street along the 19th Street corridor. Currently planned buildings include University of Nebraska Medical Center Nursing College and Dining Hall.
 - Construction of a thermal energy storage tank to help reduce operating costs by shifting cooling load to off peak hours.
 - Other significant projects included rebuilding of the chiller #4, construction of a new chilled water loop and replacement of the existing de-aerator and related relocation of the instrumentation staff shop.
- East Campus:
 - Expansion of the thermal energy storage equipment building to house a new 2,500-ton chiller and make space for a future 2,500-ton chiller.
 - Replacement of the existing switchgear that serves a large portion of the existing chilled water production equipment.
- CRES Plant:
 - Construction of the heat exchange CRES Plant on Innovation Campus that uses discharged water from the City of Lincoln's waste water treatment plant to heat and cool buildings.

CONTACT INFORMATION

This financial report is designed to provide a general overview of NUCorp's financial status for the fiscal periods ending 2016, 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 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, 2016 and 2015

Assets and Deferred Outflows of Resources

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 1,752,387	\$ 2,999,100
Investments	1,896,186	11,156,653
Restricted cash and investments	1,760,338	1,725,963
Accounts receivable	2,020,195	1,980,028
Accrued interest receivable	20,871	10,691
Inventories	61,318	63,719
	<u>7,511,295</u>	<u>17,936,154</u>
Noncurrent Assets		
Cash and cash equivalents	2,908,058	-
Investments	8,147,135	-
Restricted cash and investments	1,922,334	2,662,105
Costs recoverable from future billings	178,808	204,842
	<u>13,156,335</u>	<u>2,866,947</u>
Capital Assets		
Utility plant	58,006,581	47,369,843
Accumulated depreciation	(17,373,500)	(15,436,201)
Construction work-in-progress	5,607,924	6,175,181
	<u>46,241,005</u>	<u>38,108,823</u>
Deferred Outflows of Resources		
Deferred loss on refunded debt	535,639	618,055
	<u>535,639</u>	<u>618,055</u>
Total assets and deferred outflows of resources	<u>\$ 67,444,274</u>	<u>\$ 59,529,979</u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 6,177,096	\$ 3,892,746
Current portion of long-term debt	1,290,000	1,225,000
Accrued interest payable	470,338	500,963
	<u>7,937,434</u>	<u>5,618,709</u>
Long-term Debt, Net	<u>20,324,905</u>	<u>21,791,689</u>
Total liabilities	<u>28,262,339</u>	<u>27,410,398</u>
Net Position		
Net investment in capital assets	22,425,186	15,308,111
Restricted for debt service	2,212,333	2,505,068
Unrestricted	14,544,416	14,306,402
	<u>39,181,935</u>	<u>32,119,581</u>
Total liabilities and net position	<u>\$ 67,444,274</u>	<u>\$ 59,529,979</u>

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues	\$ 29,766,742	\$ 30,405,601
Operating Expenses		
Administration	764,123	292,020
Steam	5,482,496	5,883,082
General operating and maintenance	1,497,846	1,575,090
Electric	8,345,399	8,327,783
Water/sewer	174,715	185,992
Chilled water	3,370,679	3,444,654
Municipal utility services	401,692	354,904
Cooling tower water loop	28,803	26,369
CRES services	175,433	205,404
Depreciation	2,025,431	1,564,481
Total operating expenses	22,266,617	21,859,779
Operating income	7,500,125	8,545,822
Nonoperating Income (Expenses)		
Interest expense on long-term debt	(876,932)	(910,729)
Investment income	81,845	27,180
Interest rate subsidy	383,350	376,685
Net costs recoverable	(26,034)	(28,782)
Total nonoperating expenses	(437,771)	(535,646)
Capital Contributions	-	124,059
Reduction of Plant Costs Recovered through Capital Contributions	-	(124,059)
Change in Net Position	7,062,354	8,010,176
Net Position - Beginning of Year	32,119,581	24,109,405
Net Position - End of Year	\$ 39,181,935	\$ 32,119,581

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Received from sales to customers and users	\$ 29,726,576	\$ 30,293,943
Paid to suppliers for goods and services	<u>(19,906,875)</u>	<u>(20,019,696)</u>
Net cash flows provided by operating activities	<u>9,819,701</u>	<u>10,274,247</u>
Capital and Related Financing Activities		
Capital expenditures for utility plant	(8,205,174)	(9,194,134)
Principal payments on long-term debt	(1,225,000)	(1,250,000)
Interest payments on long-term debt	(1,001,925)	(1,013,119)
Interest rate subsidy - QECCB	<u>383,350</u>	<u>532,022</u>
Net cash flows used in capital and related financing activities	<u>(10,048,749)</u>	<u>(10,925,231)</u>
Investing Activities		
Net (purchases) sales of investments	1,670,680	(4,170,953)
Interest received	<u>71,665</u>	<u>19,255</u>
Net cash flows provided by (used in) investing activities	<u>1,742,345</u>	<u>(4,151,698)</u>
Net Change in Cash and Cash Equivalents	1,513,297	(4,802,682)
Cash and Cash Equivalents - Beginning of Year	<u>3,648,533</u>	<u>8,451,215</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,161,830</u>	<u>\$ 3,648,533</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Current assets		
Cash and cash equivalents	\$ 1,752,387	\$ 2,999,100
Investments	1,896,186	11,156,653
Restricted cash and investments	1,760,338	1,725,963
Noncurrent assets		
Cash and cash equivalents	2,908,058	-
Investments	8,147,135	-
Restricted cash and investments	<u>1,922,334</u>	<u>2,662,105</u>
Total cash and investments	18,386,438	18,543,821
Less: investments not classified as cash equivalents	<u>(13,224,608)</u>	<u>(14,895,288)</u>
	<u>\$ 5,161,830</u>	<u>\$ 3,648,533</u>

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows – Continued
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ 7,500,125	\$ 8,545,822
Noncash items included in operating income		
Depreciation	2,025,431	1,564,481
Changes in operating assets and liabilities		
Accounts receivable	(40,164)	(111,653)
Inventories	2,401	1,430
Accounts payable	<u>331,908</u>	<u>274,167</u>
Net cash provided by operating activities	<u>\$ 9,819,701</u>	<u>\$ 10,274,247</u>
Supplemental Non-Cash Activities		
Capital expenditures in accounts payable	\$ 3,736,553	\$ 1,784,111

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2016 and 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 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, 2016 and 2015

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, 2016 and 2015, cash equivalents consisted of money market funds, commercial paper and short-term U.S. agency obligations.

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. 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, 2016 and 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 GASB Codification Section Re10, *Regulated Operations*. At June 30, 2016 and 2015, 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. 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.

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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.

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 as allowed by 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.

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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net position.

Recent Accounting Pronouncements

GASB issued Statement No. 72, *Fair Value Measurement and Application*, in March 2015. This Statement requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also expands fair value application guidance and related disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on financial position. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 and were adopted by NUCorp in 2016. The implementation of this Statement did not have a significant impact on NUCorp's financial statements.

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.

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NUCorp had the following investments as of June 30:

June 30, 2016	Total	Maturities in Years		Credit Ratings Moody's / S&P
		Less Than 1	1 - 5	
Money market mutual funds	\$ 517,560	\$ 517,560	\$ -	Aaa-mf / AAAM
Corporate issues (commercial paper)	2,188,740	2,188,740	-	P-1 / A-1
U.S. agency obligations	<u>13,935,378</u>	<u>12,716,992</u>	<u>1,218,386</u>	Aaa / AA+
	<u>\$ 16,641,678</u>	<u>\$ 15,423,292</u>	<u>\$ 1,218,386</u>	

June 30, 2015	Total	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 / AAAM
U.S. Treasury securities	2,498,411	2,498,411	-	Aaa / AA+
U.S. agency obligations	<u>12,396,877</u>	<u>10,863,059</u>	<u>1,533,818</u>	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. 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, 2016 and 2015 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.

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.

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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:

	2016	2015
U.S. sponsored agency obligations		
Federal Home Loan Bank	45.57%	46.89%
Federal National Mortgage Association	16.55%	6.22%
Federal Home Loan Mortgage Corporation	9.05%	19.71%
Federal Farm Credit Banks	9.02%	4.36%

Summary of Carrying Values

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

	2016	2015
Deposits	\$ 1,744,760	\$ 2,481,935
Investments	16,641,678	16,061,886
	<u>\$ 18,386,438</u>	<u>\$ 18,543,821</u>

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	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents		
Operating funds	\$ 1,752,387	\$ 2,999,100
Investments		
Operating funds	1,896,186	11,156,653
Restricted cash and investments		
Bond principal and interest funds	1,760,338	1,725,963
Noncurrent assets		
Cash and cash equivalents - construction funds	2,908,058	-
Investments - construction funds	8,147,135	-
Restricted cash and investments		
Bond reserve funds	1,015,487	1,010,050
Bond principal and interest funds	906,847	33,084
Renewal and replacement fund	-	1,236,938
Construction funds	-	382,033
	<u>\$ 18,386,438</u>	<u>\$ 18,543,821</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

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, 2016 and 2015:

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June 30, 2016	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate issues	\$ 2,188,740	\$ -	\$ 2,188,740	\$ -
U.S. agency obligations	<u>13,935,378</u>	<u>-</u>	<u>13,935,378</u>	<u>-</u>
	<u>\$ 16,124,118</u>	<u>\$ -</u>	<u>\$ 16,124,118</u>	<u>\$ -</u>
June 30, 2015				
U.S. agency obligations	\$ 2,498,411	\$ -	\$ 2,498,411	\$ -
U.S. Treasury securities	<u>12,396,877</u>	<u>-</u>	<u>12,396,877</u>	<u>-</u>
	<u>\$ 14,895,288</u>	<u>\$ -</u>	<u>\$ 14,895,288</u>	<u>\$ -</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, 2015	Increase	Decrease	Transfers	June 30, 2016
Construction work-in-progress	\$ 6,175,181	\$ 10,101,537	\$ (24,996)	\$ (10,643,798)	\$ 5,607,924
Utility plant	47,369,843	103,772	(110,832)	10,643,798	58,006,581
Less: accumulated depreciation	<u>(15,436,201)</u>	<u>(2,025,431)</u>	<u>88,132</u>	<u>-</u>	<u>(17,373,500)</u>
Totals	<u>\$ 38,108,823</u>	<u>\$ 8,179,878</u>	<u>\$ (47,696)</u>	<u>\$ -</u>	<u>\$ 46,241,005</u>
	July 1, 2014	Increase	Decrease	Transfers	June 30, 2015
Construction work-in-progress	\$ 8,941,139	\$ 9,179,812	\$ (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>\$ 7,615,331</u>	<u>\$ (59,000)</u>	<u>\$ -</u>	<u>\$ 38,108,823</u>

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Note 5: Long-Term Debt

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.

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

	Date Callable	2016	2015
Revenue Bonds			
Series 2010 bonds, due in varying amounts through 2022, interest at 1.00% to 5.00%	2021	\$ 9,050,000	\$ 10,275,000
Series 2014A bonds, due on January 1, 2033, interest at 3.40%	Anytime	6,500,000	6,500,000
Series 2014B bonds, due on January 1, 2033, interest at 5.00%	2024	5,500,000	5,500,000
Net unamortized bond premiums		564,905	741,689
Less: current maturities		<u>(1,290,000)</u>	<u>(1,225,000)</u>
		<u>\$ 20,324,905</u>	<u>\$ 21,791,689</u>

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

	July 1, 2015	Increase	Decrease	June 30, 2016	Due Within One Year
Revenue bonds	<u>\$ 22,275,000</u>	<u>\$ -</u>	<u>\$ 1,225,000</u>	<u>\$ 21,050,000</u>	<u>\$ 1,290,000</u>
	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>

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Debt service requirements as of June 30, 2016 were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,515,000	665,675	2,180,675
2022-2026	2,035,000	2,574,445	4,609,445
2027-2031	-	2,480,650	2,480,650
2032-2033	<u>12,000,000</u>	<u>992,260</u>	<u>12,992,260</u>
Totals	<u>\$ 21,050,000</u>	<u>\$ 10,076,230</u>	<u>\$ 31,126,230</u>

The Series 2014A and 2014B bonds were issued as Qualified Energy Conservation Bonds (QECCB) 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 received a subsidy of \$383,350 and \$532,022 during the years ended June 30, 2016 and 2015, respectively.

Note 6: 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 amount of payments to LES for management, operations and maintenance services was \$105,033 and \$85,755 for the years ended June 30, 2016 and 2015, respectively. The total amount of payments to LES for energy was \$9,554,524 and \$9,514,194 for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, approximately \$1,010,000 or 16% and \$940,000 or 24%, 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.

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.