

Nebraska Utility Corporation

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

June 30, 2017 and 2016



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(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, 2017 and 2016, and the related notes to 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, 2017 and 2016, 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 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
October 6, 2017

Management's Discussion and Analysis (Unaudited)

SIGNIFICANT EVENTS

- Construction of a thermal energy storage tank on the city campus is the most significant capital project in process. This tank stores water that is chilled during off-peak electricity rate hours overnight and allows for distribution throughout the hottest hours of the day to provide air conditioning for campus buildings. The construction of the structure is completed, interior work has begun, a chilled water main installation is complete and piping work continues on 16th street.
- The project to construct a utility tunnel south of Vine Street on 19th Street has been substantially completed. The steam and chilled water piping within the tunnel have been installed and will serve the new campus dining center, nursing college and health center, as well as future buildings between 17th and 19th Streets.
- Installation of chilled water pipes from 14th & W Streets to the west side of the Hawks facility has been substantially completed. This will ensure the facilities in the southwest corner of campus have adequate cooling to support their activities.

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, 2017, 2016, and 2015. 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

	2017	2016	2015
Current Assets	\$ 9,087,919	\$ 7,511,295	\$ 17,936,154
Noncurrent Assets	4,505,847	13,156,335	2,866,947
Capital Assets	58,429,634	46,241,005	38,108,823
Deferred Outflows of Resources	453,223	535,639	618,055
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 72,476,623	\$ 67,444,274	\$ 59,529,979
Current Liabilities	\$ 7,141,560	\$ 7,937,434	\$ 5,618,709
Noncurrent Liabilities	18,821,125	20,324,905	21,791,689
TOTAL LIABILITIES	25,962,685	28,262,339	27,410,398
Net Investment in Capital Assets	36,656,451	22,425,186	15,308,111
Restricted	2,867,134	2,212,333	2,505,068
Unrestricted	6,990,353	14,544,416	14,306,402
TOTAL NET POSITION	46,513,938	39,181,935	32,119,581
TOTAL LIABILITIES AND NET POSITION	\$ 72,476,623	\$ 67,444,274	\$ 59,529,979

Comparison of 2017 to 2016

Total assets and deferred outflows of resources in 2017 increased \$5,032,349 or 7% over 2016. Noncurrent assets decreased by \$8,650,488 primarily due to the sale of investments, the proceeds of which were used in capital investments. Capital assets increased \$12,188,629 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 2017 decreased \$2,299,654 or 8% below 2016. Current liabilities decreased \$855,874 due primarily to a decrease in payables to the University of Nebraska Lincoln (UNL). Noncurrent liabilities decreased \$1,443,780 primarily due to a principal payment for the revenue bonds.

Net position in 2017 increased \$7,332,003 or 19% over 2016 based on results of operations.

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.

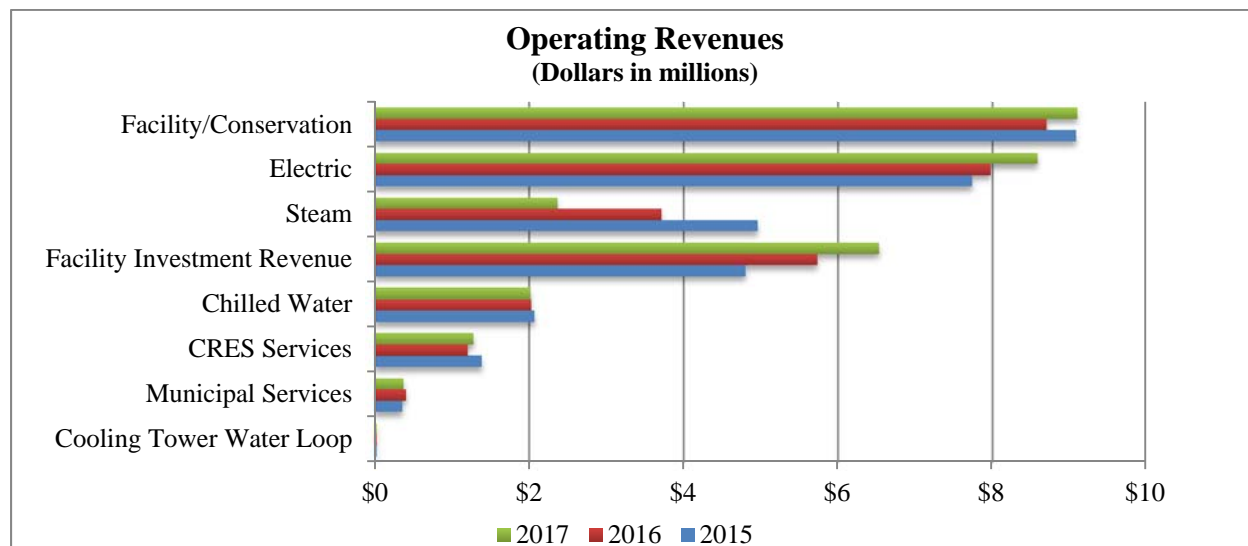
The following table summarizes operating results for the fiscal years ended June 30:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2017	2016	2015
Operating Revenues	\$ 30,268,369	\$ 29,766,742	\$ 30,405,601
Operating Expenses	22,511,787	22,266,617	21,859,779
Operating Income	7,756,582	7,500,125	8,545,822
Interest Expense (Net of Interest Rate Subsidy)	(454,122)	(493,582)	(534,044)
Other Non-Operating (Expense) Income	29,543	55,811	(1,602)
Total Non-Operating Expense	(424,579)	(437,771)	(535,646)
CHANGE IN NET POSITION	\$ 7,332,003	\$ 7,062,354	\$ 8,010,176

OPERATING REVENUES

The following chart illustrates operating revenues by category.



Comparison of 2017 to 2016

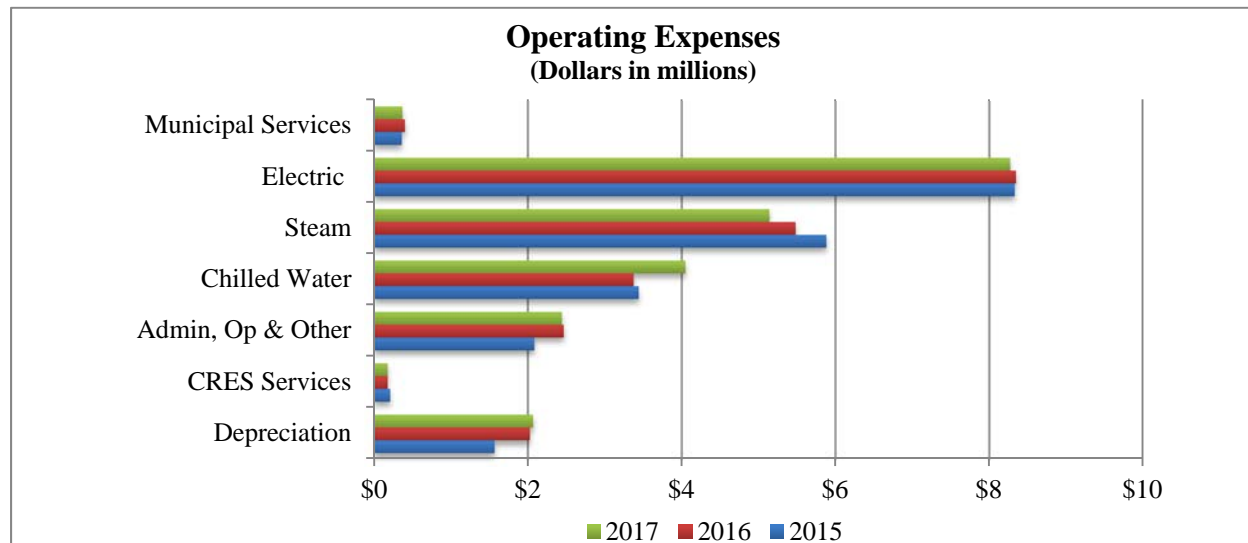
Operating revenues for 2017 were \$30,268,369, an increase of \$501,627 or 2% over 2016 operating revenues of \$29,766,742. The increase was due primarily to an increase in electric and facility investment revenue, offset by a decrease in steam services.

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.

OPERATING EXPENSES

The following chart illustrates operating expenses by category.



Comparison of 2017 to 2016

Operating expenses for 2017 were \$22,511,787, an increase of \$245,170 or 1% over 2016 operating expenses of \$22,266,617. Chilled water expenses were higher due to operation of new chiller on the East Campus. Steam expenses were lower in 2017 as compared to 2016 due to a decrease in sales volume as a result of milder weather and lower natural gas prices. Depreciation expense was higher due to utility plant additions.

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.

Cash and Financing Activities

Cash and cash equivalents increased \$2,483,470 and \$1,513,297 for fiscal years 2017 and 2016, 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

	2017	2016	2015
Cash Flows from Operating Activities	\$ 9,810,428	\$ 9,819,701	\$ 10,274,247
Cash Flows from Capital and Related Financing	(16,787,241)	(10,048,749)	(10,925,231)
Cash Flows from Investing Activities	9,460,283	1,742,345	(4,151,698)
CHANGE IN CASH & CASH EQUIVALENTS	\$ 2,483,470	\$ 1,513,297	\$ (4,802,682)

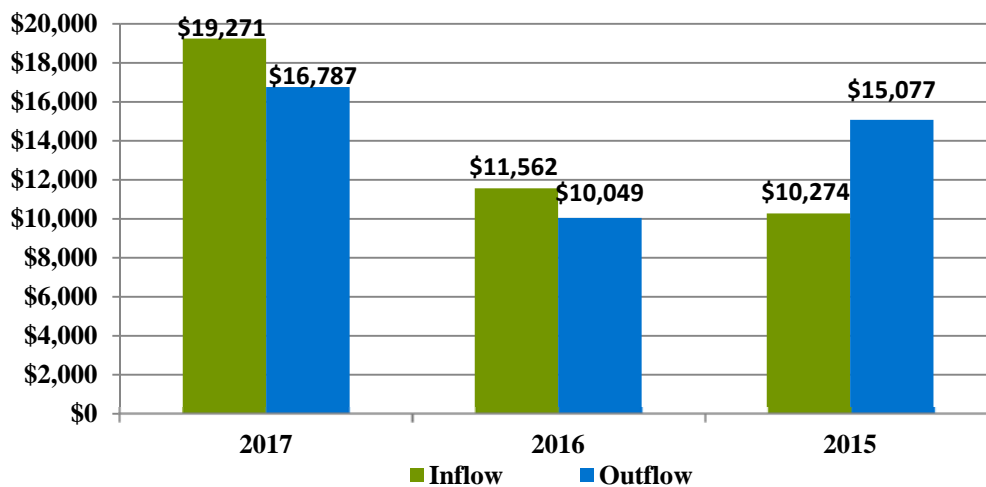
Cash flows from operating activities contain transactions involving customers and suppliers.

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 2017 to 2016

Cash flows from operating activities for 2017 decreased \$9,273 from 2016 as a result of rate changes that were implemented on July 1, 2016 and a decrease in sales volume for steam services due to milder weather conditions. Cash flows used for capital and related financing activities for 2017 increased \$6,738,492 from 2016 primarily due to an increase in cash used for acquisition and construction of capital assets. Cash inflows from investing activities for 2017 increased over 2016 cash used for investing activities primarily due to more maturities and sales of investments.

Comparison of 2016 to 2015

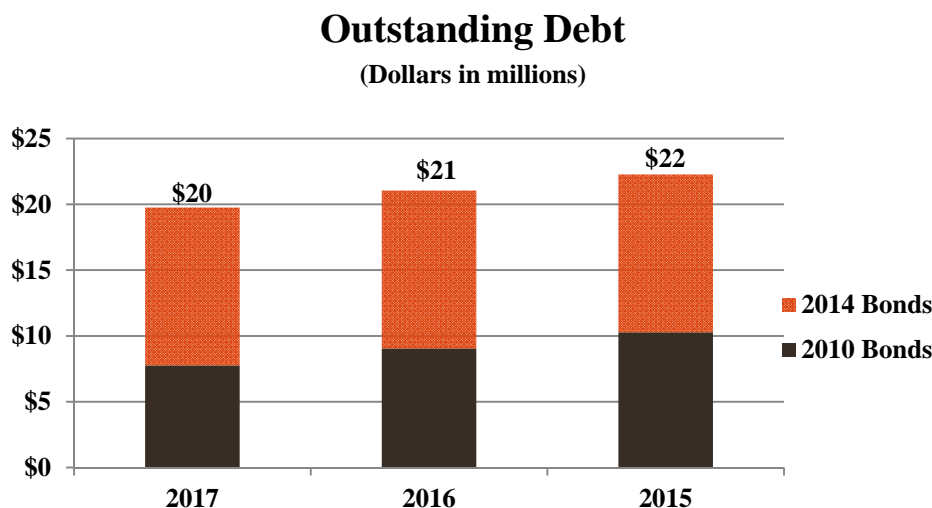
Cash flows from operating activities for 2016 decreased \$454,546 from 2015 as a result of rate changes that were implemented on July 1, 2015 and a decrease in sales volume for steam services due to milder weather conditions. Cash flows used for capital and related financing activities for 2016 decreased \$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.

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 2017 or 2016.

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 QECB (Series A) were privately issued and did not require bond ratings. NUCorp's credit ratings in effect on June 30, 2017 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 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

	2017	2016	2015
Operating Revenues	\$ 30,268,369	\$ 29,766,742	\$ 30,405,601
Administration	(900,544)	(764,123)	(292,020)
Steam	(5,136,742)	(5,482,496)	(5,883,082)
General Operating and Maintenance	(1,404,617)	(1,497,846)	(1,575,090)
Electric	(8,275,690)	(8,345,399)	(8,327,783)
Water/Sewer	(102,488)	(174,715)	(185,992)
Chilled Water	(4,045,686)	(3,370,679)	(3,444,654)
Municipal Utility Services	(367,936)	(401,692)	(354,904)
Cooling Tower Water Loop	(35,088)	(28,803)	(26,369)
CRES	(173,392)	(175,433)	(205,404)
Total Operating Expenses (excluding depreciation)	(20,442,183)	(20,241,186)	(20,295,298)
Net Operating Revenue	9,826,186	9,525,556	10,110,303
Interest Income	53,124	81,845	27,180
Earnings Available for Debt Service	\$ 9,879,310	\$ 9,607,401	\$ 10,137,483
Debt Service	\$ 2,479,436	\$ 2,480,839	\$ 2,522,917
DEBT SERVICE COVERAGE	3.98	3.87	4.02

CAPITAL PROGRAM

NUCorp has been undergoing a period of increased capital expenditures for capital improvements and new infrastructure. The following table summarizes capital expenses for the fiscal years ended June 30 (2018, 2017, 2016 and 2015):

	<u>Budget</u>	<u>Actual</u>		
	2018	2017	2016	2015
City Campus	\$ 10,590,000	\$ 12,704,983	\$ 6,536,433	\$ 1,553,377
East Campus	575,000	1,553,249	3,540,109	1,796,914
CRES	-	-	-	5,723,059
Totals	<u>\$ 11,165,000</u>	<u>\$ 14,258,232</u>	<u>\$ 10,076,542</u>	<u>\$ 9,073,350</u>

Actual and budgeted capital expenditures for 2015 through 2018 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 new and future buildings constructed south of Vine Street along the 19th Street corridor. These include the recently opened Dining Hall and the University of Nebraska Medical Center Nursing College, which is currently under construction.
 - 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 2017, 2016 and 2015. 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, 2017 and 2016

Assets and Deferred Outflows of Resources

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 5,340,910	\$ 1,752,387
Investments	-	1,896,186
Restricted cash and investments	1,788,087	1,760,338
Accounts receivable	1,922,269	2,020,195
Accrued interest receivable	4,002	20,871
Inventories	32,651	61,318
Total current assets	<u>9,087,919</u>	<u>7,511,295</u>
Noncurrent Assets		
Cash and cash equivalents	1,833,485	2,908,058
Investments	-	8,147,135
Restricted cash and investments	2,517,135	1,922,334
Costs recoverable from future billings	155,227	178,808
Total noncurrent assets	<u>4,505,847</u>	<u>13,156,335</u>
Capital Assets		
Utility plant	61,288,452	58,006,581
Accumulated depreciation	(19,182,651)	(17,373,500)
Construction work-in-progress	16,323,833	5,607,924
Total capital assets	<u>58,429,634</u>	<u>46,241,005</u>
Deferred Outflows of Resources		
Deferred loss on refunded debt	453,223	535,639
Total assets and deferred outflows of resources	<u>\$ 72,476,623</u>	<u>\$ 67,444,274</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 5,353,473	\$ 6,177,096
Current portion of long-term debt	1,350,000	1,290,000
Accrued interest payable	438,087	470,338
Total current liabilities	<u>7,141,560</u>	<u>7,937,434</u>
Long-term Debt, Net	<u>18,821,125</u>	<u>20,324,905</u>
Total liabilities	<u>25,962,685</u>	<u>28,262,339</u>
Net Position		
Net investment in capital assets	36,656,451	22,425,186
Restricted for debt service	2,867,134	2,212,333
Unrestricted	6,990,353	14,544,416
Total net position	<u>46,513,938</u>	<u>39,181,935</u>
Total liabilities and net position	<u>\$ 72,476,623</u>	<u>\$ 67,444,274</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 30,268,369	\$ 29,766,742
Operating Expenses		
Administration	900,544	764,123
Steam	5,136,742	5,482,496
General operating and maintenance	1,404,617	1,497,846
Electric	8,275,690	8,345,399
Water/sewer	102,488	174,715
Chilled water	4,045,686	3,370,679
Municipal utility services	367,936	401,692
Cooling tower water loop	35,088	28,803
CRES services	173,392	175,433
Depreciation	<u>2,069,604</u>	<u>2,025,431</u>
Total operating expenses	<u>22,511,787</u>	<u>22,266,617</u>
Operating income	<u>7,756,582</u>	<u>7,500,125</u>
Nonoperating Income (Expenses)		
Interest expense on long-term debt	(837,061)	(876,932)
Investment income	53,124	81,845
Interest rate subsidy	382,939	383,350
Net costs recoverable	<u>(23,581)</u>	<u>(26,034)</u>
Total nonoperating expenses	<u>(424,579)</u>	<u>(437,771)</u>
Change in Net Position	7,332,003	7,062,354
Net Position - Beginning of Year	<u>39,181,935</u>	<u>32,119,581</u>
Net Position - End of Year	<u>\$ 46,513,938</u>	<u>\$ 39,181,935</u>

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Received from sales to customers and users	\$ 30,366,294	\$ 29,726,576
Paid to suppliers for goods and services	<u>(20,555,866)</u>	<u>(19,906,875)</u>
Net cash flows provided by operating activities	<u>9,810,428</u>	<u>9,819,701</u>
Capital and Related Financing Activities		
Capital expenditures for utility plant	(14,939,505)	(8,205,174)
Principal payments on long-term debt	(1,290,000)	(1,225,000)
Interest payments on long-term debt	(940,675)	(1,001,925)
Interest rate subsidy - QECB	<u>382,939</u>	<u>383,350</u>
Net cash flows used in capital and related financing activities	<u>(16,787,241)</u>	<u>(10,048,749)</u>
Investing Activities		
Net sales of investments	9,390,290	1,670,680
Interest received	<u>69,993</u>	<u>71,665</u>
Net cash flows provided in investing activities	<u>9,460,283</u>	<u>1,742,345</u>
Net Change in Cash and Cash Equivalents	2,483,470	1,513,297
Cash and Cash Equivalents - Beginning of Year	<u>5,161,830</u>	<u>3,648,533</u>
Cash and Cash Equivalents - End of Year	<u>\$ 7,645,300</u>	<u>\$ 5,161,830</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Current assets		
Cash and cash equivalents	\$ 5,340,910	\$ 1,752,387
Restricted cash and investments	1,788,087	1,760,338
Noncurrent assets		
Cash and cash equivalents	1,833,485	2,908,058
Restricted cash and investments	<u>2,517,135</u>	<u>1,922,334</u>
Total cash and investments	11,479,617	8,343,117
Less: investments not classified as cash equivalents	<u>(3,834,317)</u>	<u>(3,181,287)</u>
	<u>\$ 7,645,300</u>	<u>\$ 5,161,830</u>

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows – Continued
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ 7,756,582	\$ 7,500,125
Noncash items included in operating income		
Depreciation	2,069,604	2,025,431
Changes in operating assets and liabilities		
Accounts receivable	97,926	(40,164)
Inventories	28,667	2,401
Accounts payable	(142,351)	331,908
Net cash provided by operating activities	\$ 9,810,428	\$ 9,819,701
Supplemental Non-Cash Activities		
Capital expenditures in accounts payable	\$ 3,055,281	\$ 3,736,553

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016, 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.

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.

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.

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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.

NUCorp had the following investments as of June 30:

	Fair Value	Maturities in Years		Credit Ratings Moody's / S&P
		Less Than 1	1 - 5	
June 30, 2017				
Money market mutual funds	\$ 4,221,187	\$ 4,221,187	\$ -	Aaa-mf / AAAM
Corporate issues (commercial paper)	324,181	324,181	-	P-1 / A-1+
U.S. agency obligations	3,510,136	1,883,670	1,626,466	Aaa / AA+
	<u>\$ 8,055,504</u>	<u>\$ 6,429,038</u>	<u>\$ 1,626,466</u>	
June 30, 2016				
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	13,935,378	12,716,992	1,218,386	Aaa / AA+
	<u>\$ 16,641,678</u>	<u>\$ 15,423,292</u>	<u>\$ 1,218,386</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.

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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, 2017 and 2016 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.

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

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NUCorp had the following investment concentrations as of June 30:

	<u>2017</u>	<u>2016</u>
U.S. sponsored agency obligations		
Federal Farm Credit Banks	21.14%	9.02%
Federal Agricultural Mortgage Association	12.83%	3.54%
Federal National Mortgage Association	8.72%	16.54%
Federal Home Loan Bank	2.72%	45.54%
Federal Home Loan Mortgage Corporation	0.00%	9.05%

Summary of Carrying Values

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

	<u>2017</u>	<u>2016</u>
Deposits	\$ 3,424,113	\$ 1,744,760
Investments	8,055,504	16,641,678
	<u>\$ 11,479,617</u>	<u>\$ 18,386,438</u>
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents		
Operating funds	\$ 5,340,910	\$ 1,752,387
Investments		
Operating funds	-	1,896,186
Restricted cash and investments		
Bond principal and interest funds	1,788,087	1,760,338
Noncurrent assets		
Cash and cash equivalents - construction funds	1,833,485	2,908,058
Investments - construction funds	-	8,147,135
Restricted cash and investments		
Bond reserve funds	1,004,998	1,015,487
Bond principal and interest funds	1,512,137	906,847
	<u>\$ 11,479,617</u>	<u>\$ 18,386,438</u>

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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, 2017 and 2016:

June 30, 2017	Level 1	Level 2	Level 3	Total
Corporate issues	\$ -	\$ 324,181	\$ -	\$ 324,181
U.S. Agency obligations	-	3,510,136	-	3,510,136
Totals	<u>\$ -</u>	<u>\$ 3,834,317</u>	<u>\$ -</u>	<u>\$ 3,834,317</u>

June 30, 2016	Level 1	Level 2	Level 3	Total
Corporate issues	\$ -	\$ 2,188,740	\$ -	\$ 2,188,740
U.S. Agency obligations	-	13,935,378	-	13,935,378
Totals	<u>\$ -</u>	<u>\$ 16,124,118</u>	<u>\$ -</u>	<u>\$ 16,124,118</u>

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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, 2016	Increase	Decrease	Transfers	June 30, 2017
Construction work-in-progress	\$ 5,607,924	\$ 13,878,802	\$ -	\$ (3,162,893)	\$ 16,323,833
Utility plant	58,006,581	379,431	(260,453)	\$ 3,162,893	61,288,452
Less: accumulated depreciation	(17,373,500)	(2,069,604)	260,453		(19,182,651)
Totals	<u>\$ 46,241,005</u>	<u>\$ 12,188,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,429,634</u>

	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	(15,436,201)	(2,025,431)	88,132	-	(17,373,500)
Totals	<u>\$ 38,108,823</u>	<u>\$ 8,179,878</u>	<u>\$ (47,696)</u>	<u>\$ -</u>	<u>\$ 46,241,005</u>

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:

Revenue Bonds	Date Callable	2017	2016
Series 2010 bonds, due in varying amounts through 2022, interest at 1.00% to 5.00%	2021	\$ 7,760,000	\$ 9,050,000
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		411,125	564,905
Less: current maturities		(1,350,000)	(1,290,000)
		<u>\$ 18,821,125</u>	<u>\$ 20,324,905</u>

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

	July 1, 2016	Increase	Decrease	June 30, 2017	Due Within One Year
Revenue bonds	<u>\$ 21,050,000</u>	<u>\$ -</u>	<u>\$ 1,290,000</u>	<u>\$ 19,760,000</u>	<u>\$ 1,350,000</u>

	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>

Debt service requirements as of June 30, 2017 were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 1,350,000	\$ 842,425	\$ 2,192,425
2019	1,420,000	773,175	2,193,175
2020	1,440,000	701,675	2,141,675
2021	1,515,000	627,800	2,142,800
2022	2,035,000	543,028	2,578,028
2023-2027	-	2,480,650	2,480,650
2028-2032	-	2,480,650	2,480,650
2033	<u>12,000,000</u>	<u>248,065</u>	<u>12,248,065</u>
Totals	<u>\$ 19,760,000</u>	<u>\$ 8,697,468</u>	<u>\$ 28,457,468</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 \$382,939 and \$383,350 during the years ended June 30, 2017 and 2016, respectively.

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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 \$133,698 and \$105,033 for the years ended June 30, 2017 and 2016, respectively. The total amount of payments to LES for energy was \$10,177,885 and \$9,554,524 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, approximately \$933,011 or 17% and \$1,010,000 or 16%, 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.