# Municipal Energy Agency of Nebraska

Independent Auditor’s Report and Financial Statements

March 31, 2016 and 2015

# Municipal Energy Agency of Nebraska
## March 31, 2016 and 2015

## Contents

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# Independent Auditor's Report

Board of Directors
Municipal Energy Agency of Nebraska
Lincoln, Nebraska

We have audited the accompanying basic financial statements of Municipal Energy Agency of Nebraska, which are comprised of balance sheets as of March 31, 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 Municipal Energy Agency of Nebraska as of March 31, 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.

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, the 2015 financial statements have been restated for a change in accounting principle. Our opinion is not modified with respect to this matter.

### *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
July 14, 2016

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis on the following pages summarizes the financial highlights and focuses on factors that had a material effect on the financial condition of Municipal Energy Agency of Nebraska (MEAN) and the results of operations for the years ended March 31, 2016, 2015 and 2014. This discussion should be read in conjunction with the accompanying financial highlights, the basic financial statements, and notes to the financial statements.

## *Summary of the Financial Statements*

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about MEAN's financial position and activities.

**Management's Discussion and Analysis** – provides an objective and easily readable analysis of the financial activities of MEAN based on currently known facts, decisions or conditions.

**Balance Sheets** – provide a summary of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

**Statements of Revenues, Expenses and Changes in Net Position** – present the operating results of MEAN into various categories of operating revenues and expenses, and non-operating revenues and expenses.

**Statements of Cash Flows** – report the cash provided by and used for operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

**Notes to the Financial Statements** – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

### *Financial Analysis*

The following comparative condensed financial information summarizes MEAN's financial position and operating results for the years ended March 31, 2016, 2015 and 2014.

## Condensed Balance Sheets and Financial Highlights

| | March 31, | | | Change | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | From 2015 to 2016 | From 2014 to 2015 |
| **Assets and Deferred Outflows of Resources** | | | | | |
| Current assets | $ 62,470,452 | $ 57,823,944 | $ 54,096,808 | $ 4,646,508 | $ 3,727,136 |
| Restricted and long-term investments | 22,922,995 | 21,721,600 | 25,486,842 | 1,201,395 | (3,765,242) |
| Capital assets and productive capacity | 133,147,608 | 141,570,938 | 147,202,920 | (8,423,330) | (5,631,982) |
| Other noncurrent assets | 46,154,721 | 45,591,875 | 43,965,465 | 562,846 | 1,626,410 |
| Deferred outflows of resources | 2,703,942 | 3,594,303 | 4,430,491 | (890,361) | (836,188) |
| Total assets and deferred outflows of resources | $ 267,399,718 | $ 270,302,660 | $ 275,182,526 | $ (2,902,942) | $ (4,879,866) |
| **Liabilities, Deferred Inflows of Resources and Net Position** | | | | | |
| Current liabilities | $ 20,619,069 | $ 20,988,396 | $ 21,980,069 | $ (369,327) | $ (991,673) |
| Long-term debt, net | 174,069,073 | 180,220,195 | 184,996,316 | (6,151,122) | (4,776,121) |
| Deferred inflows of resources | 24,947,378 | 21,969,810 | 21,369,680 | 2,977,568 | 600,130 |
| Net position | | | | | |
| Net investment in capital assets | 6,892,475 | 10,384,977 | 12,357,646 | (3,492,502) | (1,972,669) |
| Restricted for debt service | 6,169,409 | 6,169,409 | 6,169,409 | - | - |
| Unrestricted | 34,702,314 | 30,569,873 | 28,309,406 | 4,132,441 | 2,260,467 |
| Total net position | 47,764,198 | 47,124,259 | 46,836,461 | 639,939 | 287,798 |
| Total liabilities, deferred inflows of resources and net position | $ 267,399,718 | $ 270,302,660 | $ 275,182,526 | $ (2,902,942) | $ (4,879,866) |

## Assets and Deferred Outflows of Resources

Current assets increased in 2016 and 2015 primarily due to increased cash and cash equivalents and short-term investments.

During 2016 and 2015, construction funds were used to pay for qualifying expenditures resulting in a decrease in restricted investments at March 31, 2016 and 2015. The remaining construction fund balance was used to pay for qualifying expenditures in May 2015. Long-term investments increased in 2016 and decreased in 2015. Fluctuations are related to the maturity in years of the investment portfolio at each year end.

Depreciation charges exceeded additions to productive capacity as shown in Note 3 in both 2016 and 2015 resulting in an overall decrease in capital assets and productive capacity. MEAN's investment in productive capacity consists primarily of its ownership interest in two power generation plants: 1) a 6.92% ownership interest in the Walter Scott, Jr. Energy Center Unit 4 (WSEC 4) generation plant, located near Council Bluffs, Iowa and 2) a 23.5% ownership interest in the Wygen Unit I (Wygen I) generation plant, located near Gillette, Wyoming. Capital assets include MEAN's operations and management facility and furniture, fixtures and equipment.

The increase in other noncurrent assets in 2016 and 2015 is due to the deferral of certain costs permitted under Governmental Accounting Standards Board (GASB) Codification Section Re10, *Regulated Operations.*

Deferred outflows of resources consist of deferred costs of refunded debt resulting from refunding transactions. The decline in each year resulted from annual amortization.

## Liabilities and Deferred Inflows of Resources

Current liabilities decreased in 2016 and 2015 due to timing of when invoices were received and paid.

Net long-term debt declined in 2016 and 2015 as principal payments were paid and no bond financing transactions occurred.

Deferred inflows of resources consist of deferred revenue – rate stabilization which fluctuates as a result of activity in the Rate Stabilization Fund which is described further in "Risk Management Practices".

## Debt Activity

In 2016 and 2015, MEAN did not issue any debt and made scheduled principal payments of $4,155,000 and $2,855,000, respectively.

## Debt Ratings and Debt Service Coverage

During the bond issuance process in 2013, Standard and Poor's (S&P) assigned an A/stable rating, to the 2013 bonds and affirmed the A/stable rating on MEAN's other outstanding debt. On February 23, 2015, Fitch Ratings affirmed an A/stable rating on MEAN's outstanding debt. On April 19, 2016, Moody's Investors Service affirmed an A2/stable rating on MEAN's outstanding debt. These high ratings indicate the agencies' assessment of MEAN's ability to pay interest and principal on its debt based on MEAN's financial strength and business characteristics as a public power provider.

MEAN is required by its bond covenants to maintain a debt service coverage of 1.0 times. Typically, MEAN targets year-end debt service coverage of 1.20. Debt service coverage was 1.22, 1.20, and 1.21 for 2016, 2015, and 2014, respectively.

## Condensed Statements of Revenues, Expenses and Changes in Net Position and Financial Highlights

| | March 31, | | | Change | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | From 2015 to 2016 | From 2014 to 2015 |
| Sales volumes (MWh's) | 2,107,000 | 2,433,000 | 2,762,000 | (326,000) | (329,000) |
| Electric energy sales and other operating revenues | $ 128,056,506 | $ 144,622,436 | $ 148,482,575 | $ (16,565,930) | $ (3,860,139) |
| Provision for rate stabilization | (2,977,568) | (600,130) | (1,623,164) | (2,377,438) | 1,023,034 |
| Total operating revenues | 125,078,938 | 144,022,306 | 146,859,411 | (18,943,368) | (2,837,105) |
| Electric energy costs | 101,140,683 | 124,347,524 | 127,638,949 | (23,206,841) | (3,291,425) |
| Other operating expenses | 16,984,098 | 15,852,017 | 14,245,984 | 1,132,081 | 1,606,033 |
| Total operating expenses | 118,124,781 | 140,199,541 | 141,884,933 | (22,074,760) | (1,685,392) |
| Operating income | 6,954,157 | 3,822,765 | 4,974,478 | 3,131,392 | (1,151,713) |
| Net nonoperating expenses | (6,314,218) | (3,534,967) | (3,801,012) | (2,779,251) | 266,045 |
| Increase in net position | $ 639,939 | $ 287,798 | $ 1,173,466 | $ 352,141 | $ (885,668) |

**Sales Volumes and Operating Revenues**

MWh’s delivered in 2016 decreased 13% compared to 2015. MWh’s delivered in 2015 decreased 12% compared to 2014.

In 2016 and 2015, MWh’s delivered to MEAN’s long-term total requirements participants decreased primarily due to the impact of weather conditions; however, electric energy sales revenues from MEAN’s long-term total requirements participants increased as a result of changes to rates and charges in 2016 and 2015. In 2016 and 2015, MWh’s delivered to MEAN’s limited-term total requirements participants decreased due primarily to changes in contract terms along with the impact of weather conditions. In both 2016 and 2015, limited-term total requirement contracts expired resulting in a decrease in electric energy sales revenues from MEAN’s limited-term total requirements participants. As a result of the implementation of SPP’s Integrated Marketplace (IM) in March 2014, MEAN now acts as an agent, providing scheduling services for three of MEAN’s service power participants and has contracted to collect payments for the service power participants participating in SPP IM and remit these payments to SPP and other transmission providers. MEAN no longer sells electric energy to the three service power participants participating in SPP IM, nor does MEAN incur the related electric energy costs. The implementation of SPP’s IM also decreased the potential for interchange sales. Natural gas prices and wind generation within SPP have a significant effect on prices in the SPP IM. See Note 8 for additional information.

For 2016 and 2015, the Board of Directors authorized a transfer from rate stabilization into operating revenues of $1,225,000 and $1,190,004, respectively, related to electric energy sales revenue from a regulatory independent transmission system operator and transmission adjustment transferred into the rate stabilization account in 2013. In 2016, the Board of Directors also authorized a provision for rate stabilization of $4,202,568 from operating revenues. In 2015, The Board of Directors also authorized a provision for rate stabilization of $1,790,134 related to other nonoperating revenue recorded by MEAN in 2015. These authorizations resulted in a net provision for rate stabilization in 2016 and 2015 of $2,977,568 and $600,130, respectively. See Note 1 – Deferred Revenue – Rate Stabilization for additional information.

**Operating Expenses**

Electric energy costs vary from year to year due to changes in demand for energy by participants and other buying entities and fluctuations in the cost per MWh of purchased and produced power. Decreased electric energy costs in 2016 and 2015 related primarily to changes in demand for energy by participants as a result of mild weather and contract expirations noted above resulting in decreased purchased power volumes.

## *General Trends and Significant Events*

### Southwest Power Pool

MEAN participates in SPP's IM which launched on March 1, 2014 to replace the Energy Imbalance Service market that SPP had operated since 2007. This market expansion is the latest and most complex step in SPP's approach to adding market functionality that will coordinate next-day generation across the region. SPP expects the IM to maximize cost-effectiveness, provide participants with greater access to reserve energy, improve regional balancing of electricity supply and demand, and facilitate the integration of renewable resources. MEAN became a member of the SPP Regional Transmission Organization on October 20, 2015. As a member, MEAN works with other SPP members to identify ways to improve market operations and overall organizational effectiveness.

### Environmental Regulations

The electric industry is exposed to continuing environmental regulations which are subject to change. Consequently, there is no assurance that facilities MEAN participates in will remain subject to the regulations currently in effect or will meet future regulations without retrofit. MEAN cannot anticipate the outcome of current regulatory and legislative processes. MEAN could be subject to increased costs or reduced operating levels as a result of future environmental regulations. MEAN continues to monitor the development and implementation of new or modified environmental regulations.

MEAN joined together with four other public power entities to form the Public Power Generation Agency (PPGA). PPGA developed, constructed and operates the Whelan Energy Center Unit 2 (WEC 2), a 220 MW coal-fired generating unit near Hastings, Nebraska. WEC 2 is operated under Best Available Control Technology standards. MEAN's coal fired generation units, WSEC 4 and Wygen I, are also equipped with current Best Available Control Technology that combines lowest emissions with a long-term baseload energy resource. MEAN also has a 1.67% ownership interest in the coal-fired steam-electric Laramie River Station (LRS) generating station.

The following is a summary of the current regulations related to MEAN owned facilities.

The Federal Clean Air Act regulates the emissions of air pollutants, establishes national air quality standards for major pollutants and requires permitting of new and existing sources of air pollution. WSEC 4, Wygen I and LRS currently have in place the necessary Title V Operating permits and Acid Rain permits related to the Clean Air Act. WEC 2 has submitted the necessary Title V Operating permit application and Acid Rain permit renewal application and is awaiting Nebraska Department of Environmental Quality approval. WEC 2 does not currently anticipate any problems with the permits. Title IV of the Clean Air Act created an SO2 allowance trading program as part of the federal acid rain program. Sufficient allowances to satisfy Title IV are held for Wygen I and WEC 2.

The Mercury and Air Toxics Standard (MATS) rule aims to reduce emissions of heavy metal and acid gases, including mercury. WSEC 4 was originally constructed with emissions controls which enable the plant to comply with MATS. At the time of purchase of the Air Quality Control System for WEC 2, WEC 2 purchased the necessary equipment to use activated carbon injection as a control of mercury emission to enable compliance with MATS. Wygen I's current emission control equipment enables the plant to comply with MATS. LRS completed installation of equipment in order to meet a June 2015 compliance deadline to comply with MATS. Ongoing compliance with MATS must be demonstrated by each affected facility.

Under the Regional Haze Program each state is required to submit a state implementation plan to improve visibility and air quality in Class I national parks by reducing particulate matter emission. Nebraska, as a Cross-State Air Pollution Rule (CSAPR)-affected state, will be able to substitute CSAPR for any requirements related to the Regional Haze Program. Due to WEC 2's modern Air Quality Control System, WEC 2 is well positioned to meet any requirements relating to CSAPR's implementation. Based on a determination by the state of Iowa, WSEC 4 is not subject to the Regional Haze Program. The estimated Regional Haze compliance date for LRS, which is located in Wyoming, is 2020. The Wyoming Department of Environmental Quality and coal plant operators are evaluating various options for LRS compliance which include negotiating a settlement with the Environmental Protection Agency (EPA). Possible options for discussion with EPA include installing selective noncatalytic reduction (SNCR) controls on two units and selective catalytic reduction (SCR) control on one unit, rather than all SCR controls. This would result in a significant cost reduction over installing all SCR NOx removing technology. Wygen I is not currently subject to CSAPR, however, Wygen I is well positioned to meet any requirements relating to CSAPR's implementation.

EPA has proposed a New Source Performance Standard and Clean Power Plan related to greenhouse gas emission guidelines for new and existing power plants. The proposed regulations, along with proposed emission reduction guidelines, were published in the Federal Register as final rule on October 23, 2015. With promulgation of the final rules, more decisions will need to be made regarding the feasibility of coal resources. The regulations created by this process have the potential to have a significant impact on MEAN and the electric utility industry. On February 9, 2016, the U.S. Supreme court granted stay motions filed by states and industry that sought to put implementation of the EPAs' Clean Power Plan on hold pending judicial review.

The Federal Clean Water Act regulates the discharge of process wastewater and certain storm water under the National Pollutant Discharge Elimination System permit program. WSEC 4 is not impacted by the Clean Water Act. WEC 2, Wygen I and LRS have proper permitting in place under the Clean Water Act. Moving forward LRS will be evaluating its need for any improvements to comply with standards for entrainment and impingement of fish in relation to meeting its cooling water needs.

## Renewable Resources

MEAN has 10.5 MW's of wind capacity generated from its wind farm located near Kimball, Nebraska. MEAN has also contracted for the purchase of 37 MW's of wind capacity from other wind energy producers in the region. In addition to the wind capacity, MEAN has contracted for 4.8 MW's fueled by landfill gas from the Waste Management Des Moines Landfill Gas Facility which began commercial operations in March 2014. MEAN has contracted with Delta-Montrose Electric Association (DMEA) for 7.6 MW from hydroelectric generating facilities in Colorado owned by Shavano Falls Hydro, LLC which began commercial operation in May 2015.

MEAN continues to review renewable energy projects that are of strategic interest and is working with MEAN participants to address the impact of trends in distributed and renewable generation. The federal stimulus activity and renewable energy proposals and directives have resulted in challenging dynamics to satisfy MEAN participant and legislative requirements.

### *Risk Management Practices*

MEAN is subject to various risks inherent in the electric energy business, including market risk, operating risk, regulatory and political risks, credit risk, interest risk and insurance risk.

As a means of identifying, measuring, managing and mitigating these various risks, MEAN has developed financial and operational policies and guidelines, which have been approved by the Board of Directors and Management Committee, as applicable.

One of MEAN's management tools was the creation of a rate stabilization account, within the general reserve fund. This funded reserve may be used to pay operating expenses or debt service or for other purposes that enable MEAN to, or facilitate MEAN's ability to, provide services at stable and economic rates for its participant communities. In 2016, there was a net transfer into the rate stabilization account of $2,977,568. In 2015, there was a net transfer into the rate stabilization account of $600,130.

As a means of stabilizing its rate structure, MEAN has elected to defer certain costs related to its investment in WSEC 4, Wygen I and Laramie River Station generating plants as allowed under the regulated operations provisions of GASB Codification Section Re10, *Regulated Operations*. These costs, primarily depreciation and bond issue costs, will be charged to expense in future years.

### *Report Purpose and Contact Information*

This financial report is designed to provide member municipalities, other non-member participants and creditors with a general overview of MEAN's financial status for the fiscal years 2016, 2015 and 2014. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Accounting at 8377 Glynoaks Dr., Lincoln, Nebraska 68516.

# Municipal Energy Agency of Nebraska

## Balance Sheets

## March 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets and Deferred Outflows of Resources** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 37,868,007 | $ 24,476,686 |
| Short-term investments | 7,501,955 | 6,113,065 |
| Accounts receivable | 12,896,212 | 24,096,660 |
| Prepaid expenses and other | 508,095 | 481,266 |
| Productive capacity operating assets | 3,696,183 | 2,656,267 |
| Total current assets | 62,470,452 | 57,823,944 |
| **Noncurrent Assets** | | |
| Long-term investments | 9,035,324 | 7,359,095 |
| Restricted investments | 13,887,671 | 14,362,505 |
| Contracts receivable | 3,062,493 | 4,135,292 |
| Productive capacity, net | 127,261,973 | 135,323,888 |
| Capital assets, net | 5,885,635 | 6,247,050 |
| Costs recoverable from future billings | 43,092,228 | 41,456,583 |
| Total noncurrent assets | 202,225,324 | 208,884,413 |
| **Deferred Outflows of Resources** | | |
| Deferred cost of refunded debt | 2,703,942 | 3,594,303 |
| Total assets and deferred outflows of resources | $ 267,399,718 | $ 270,302,660 |
| **Liabilities, Deferred Inflows of Resources and Net Position** | | |
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 5,530,000 | $ 4,155,000 |
| Accounts payable and accrued expenses | 10,949,319 | 12,619,621 |
| Accrued interest payable | 4,139,750 | 4,213,775 |
| Total current liabilities | 20,619,069 | 20,988,396 |
| **Long-term Debt, Net** | 174,069,073 | 180,220,195 |
| **Deferred Inflows of Resources** | | |
| Deferred revenue - rate stabilization | 24,947,378 | 21,969,810 |
| **Net Position** | | |
| Net investment in capital assets | 6,892,475 | 10,384,977 |
| Restricted for debt service | 6,169,409 | 6,169,409 |
| Unrestricted | 34,702,314 | 30,569,873 |
| Total net position | 47,764,198 | 47,124,259 |
| Total liabilities, deferred inflows of resources and net position | $ 267,399,718 | $ 270,302,660 |

# Municipal Energy Agency of Nebraska

## Statements of Revenues, Expenses and Changes in Net Position

## Years Ended March 31, 2016 and 2015

| | 2016 | 2015 (As Restated) |
|---|---|---|
| **Operating Revenues** | | |
| Electric energy sales | $ 127,554,033 | $ 144,004,081 |
| Provision for rate stabilization | (2,977,568) | (600,130) |
| Other | 502,473 | 618,355 |
| Total operating revenues | 125,078,938 | 144,022,306 |
| **Operating Expenses** | | |
| Electric energy costs | 101,140,683 | 124,347,524 |
| Administrative and general | 7,546,319 | 6,839,529 |
| Depreciation and amortization | 9,437,779 | 9,012,488 |
| Total operating expenses | 118,124,781 | 140,199,541 |
| **Operating Income** | 6,954,157 | 3,822,765 |
| **Nonoperating Revenues (Expenses)** | | |
| Net costs to be recovered in future periods | 1,635,645 | 2,746,946 |
| Investment return | 411,703 | 461,802 |
| Interest expense | (8,548,740) | (8,642,617) |
| Other | 187,174 | 1,898,902 |
| Net nonoperating expenses | (6,314,218) | (3,534,967) |
| **Increase in Net Position** | 639,939 | 287,798 |
| **Net Position, Beginning of Year** | 47,124,259 | 46,836,461 |
| **Net Position, End of Year** | $ 47,764,198 | $ 47,124,259 |

# Municipal Energy Agency of Nebraska

## Statements of Cash Flows

## Years Ended March 31, 2016 and 2015

| | 2016 | 2015 (As Restated) |
|---|---|---|
| **Operating Activities** | | |
| Cash received from participants and customers | $ 164,688,162 | $ 167,504,982 |
| Cash paid to suppliers | (130,593,328) | (151,922,188) |
| Cash paid to coalition members | (5,189,130) | (5,253,674) |
| Net cash provided by operating activities | 28,905,704 | 10,329,120 |
| **Noncapital Financing Activities, Other Nonoperating Receipts** | 168,924 | 1,898,902 |
| **Capital and Related Financing Activities** | | |
| Principal payments on long-term debt | (4,155,000) | (2,855,000) |
| Additions of productive capacity | (984,951) | (3,220,786) |
| Proceeds from sale of capital assets | 27,280 | - |
| Purchase of capital assets | (38,528) | (159,720) |
| Interest paid | (8,353,526) | (8,481,525) |
| Net cash used in capital and related financing activities | (13,504,725) | (14,717,031) |
| **Investing Activities** | | |
| Interest received on investments | 368,350 | 339,086 |
| Purchases of investments | (28,344,700) | (18,775,232) |
| Proceeds from sales and maturities of investments | 25,797,768 | 23,559,760 |
| Net cash provided by (used in) investing activities | (2,178,582) | 5,123,614 |
| **Increase in Cash and Cash Equivalents** | 13,391,321 | 2,634,605 |
| **Cash and Cash Equivalents, Beginning of Year** | 24,476,686 | 21,842,081 |
| **Cash and Cash Equivalents, End of Year** | $ 37,868,007 | $ 24,476,686 |

# Municipal Energy Agency of Nebraska
## Statements of Cash Flows - Continued
## Years Ended March 31, 2016 and 2015

| | 2016 | 2015 (As Restated) |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income | $ 6,954,157 | $ 3,822,765 |
| Depreciation and amortization | 9,437,779 | 9,012,488 |
| Provision for rate stabilization | 2,977,568 | 600,130 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 11,200,448 | (2,136,506) |
| Productive capacity operating assets | (1,039,916) | 89,074 |
| Prepaid expenses and other | (26,829) | 58,331 |
| Contracts receivable | 1,072,799 | 1,120,536 |
| Accounts payable and accrued expenses | (1,670,302) | (2,237,698) |
| **Net Cash Provided by Operating Activities** | $ 28,905,704 | $ 10,329,120 |

# Municipal Energy Agency of Nebraska
## Notes to Financial Statements
## March 31, 2016 and 2015

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

Municipal Energy Agency of Nebraska (MEAN or the Agency) was created pursuant to provisions of the Municipal Cooperative Financing Act (Act). MEAN, pursuant to the Act, is a political subdivision of the State of Nebraska providing power supply, energy transmission and exchange of electrical power to its member municipalities and other nonmember participants.

### *Reporting Entity*

In evaluating how to define the Agency, for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity's fiscal dependency on the Agency.

MEAN, Nebraska Municipal Power Pool (NMPP), National Public Gas Agency (NPGA) and Public Alliance for Community Energy (ACE), comprise a coalition referred to by the trade name NMPP Energy. This coalition of entities provides energy-related services to member and nonmember participants while sharing facilities and management personnel. None of the organizations included in NMPP Energy are responsible for the obligations, liabilities or debts of any of the other organizations in the coalition. Based upon the above criteria, none of the organizations are considered component units of any of the other associated organizations.

### *Basis of Accounting and Presentation*

MEAN's activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. MEAN's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC). MEAN prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). MEAN's accounting policies also follow 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 its customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

## Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

### *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 balance sheet amounts and disclosure of contingent items 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 may differ from those estimates.

### *Cash Equivalents*

MEAN considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At March 31, 2016 and 2015, cash equivalents consisted primarily of money market mutual funds.

### *Investments and Investment Income*

MEAN maintains various debt service reserve accounts that are available for use to pay off debt. The reserve accounts consist of bank deposits and investments. Investments in money market mutual funds, U.S. agency obligations and other debt securities are carried at fair value. Fair value is determined using quoted market prices. Investment income consists of interest income and the net change for the year in the fair value of investments.

### *Accounts Receivable*

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are charged off as they are deemed uncollectible. MEAN does not believe an allowance for doubtful accounts is necessary at March 31, 2016 and 2015.

### *Productive Capacity Operating Assets*

Productive capacity operating assets related to the operation of Laramie River Station (LRS), Walter Scott, Jr. Energy Center Unit 4 (WSEC 4) and Wygen Unit I (Wygen I) are comprised of operating assets, primarily fuel and supplies inventories, and operating cash. These assets are managed by the operating agent of each respective project. Operating expenses related to MEAN’s participation in LRS, WSEC 4 and Wygen I are included in electric energy costs in the statements of revenues, expenses and changes in net position.

## Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

### *Productive Capacity*

Productive capacity includes the costs incurred for:

- A 1.67% ownership interest in the three-unit 1,697 MW coal-fired steam-electric LRS generating station and an associated transmission system in Platte County, Wyoming on the Laramie River. MEAN purchased the ownership interest from Lincoln Electric System (LES), a co-owner of the Missouri Basin Power Project (MBPP) that includes LRS.
- Ownership of a 10.5 MW wind project consisting of seven turbines located near Kimball, Nebraska.
- A 6.92% ownership interest in the 790 net MW coal-fired steam-electric WSEC 4 generation unit near Council Bluffs, Iowa. MidAmerican Energy Company developed, designed, constructed and operates WSEC 4.
- A 23.5% ownership interest in the 85 MW coal-fired Wygen Unit I electric generation unit located near Gillette, Wyoming. Black Hills Wyoming, Inc. developed, designed, constructed and operates Wygen Unit I.

Productive capacity costs are being amortized on both a sinking fund method and on the straight-line basis over the estimated life of the various projects.

LRS project participants filed a rate case in 2004 with the federal Surface Transportation Board (STB) challenging the reasonableness of the freight rates charged by the Burlington Northern Santa Fe (BNSF) railroad for coal deliveries to LRS. In 2009, the STB entered a rate relief award due to a new STB-ordered tariff that would remain effective through 2024. BNSF appealed the STB decision and the parties were involved in various legal and regulatory proceedings related to the appeal. On January 28, 2015, Western Fuels and BNSF filed a joint petition with the STB asking the STB to hold the rate proceeding in abeyance due to the fact that the parties had reached a preliminary settlement that called for dismissal of the case and vacate of the rate prescription ordered by the STB. The settlement was finalized in May 2015. The settlement is confidential due to the fact that it includes competitive pricing terms. The settlement resolves all outstanding legal issues with BNSF related to the 2004 freight issues. MEAN received net funds of approximately $1.7 million in 2016 as a result of the settlement. In 2015, the net settlement funds were included in accounts receivable on the Balance Sheets and other nonoperating revenues on the Statements of Revenues, Expenses and Changes in Net Position. See also Note 1 – Deferred Revenue – Rate Stabilization.

## Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

### *Capital Assets*

Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by MEAN:

| | |
|---|---|
| Building and improvements | 7 – 40 Years |
| Furniture, equipment and transportation equipment | 3 – 7 Years |

### *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 wholesale electric service rates, in accordance with the provisions of GASB Codification Section Re10, *Regulated Operations*.

### *Deferred Cost of Refunded Debt*

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Amortization is recorded annually in nonoperating expenses.

### *Deferred Revenue - Rate Stabilization*

MEAN's Board of Directors established a rate stabilization account within the general reserve fund pursuant to the provisions in the 2003 Power Supply System Revenue Bond Resolution and related supplemental resolutions to assist in maintaining stable electric rates for its participants.

In January 2013, the Board of Directors and Management Committee established a regulatory independent transmission system operator and transmission adjustment (RITA) of approximately $6.3 million to recover transmission costs incurred by MEAN. The RITA was allocated to each participant under the Electrical Resources Pooling Agreements as of January 2013 and recorded as contracts receivable and electric energy sales revenue in 2013. The RITA is collected monthly over a five year term which began April 2014 or the remaining life of the participant's current service schedule, whichever is less. Participants had the option of paying the RITA in a lump sum. In addition, those participants with current service schedule contracts expiring prior to April 2019 had the option of entering into a separate written agreement to spread the participant's share over a maximum of five years.

## Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

The electric energy sales revenue from the RITA was transferred into the rate stabilization account in 2013. Transfers of the rate stabilization funds into revenues will be recorded beginning April 2014 in accordance with the RITA payment provisions. In 2016 and 2015, $1,225,000 and $1,190,004, respectively, of RITA funds were transferred into operating revenues from the rate stabilization account.

In 2016, the Board of Directors also authorized the transfer of $4,202,568 of operating revenues into the rate stabilization account. In 2015, the Board of Directors also authorized the transfer of $1,790,134 of other nonoperating revenue into the rate stabilization account. See also Note 1 – Productive Capacity. The net amount transferred into the rate stabilization account in 2016 and 2015, was $2,977,568 and $600,130, respectively.

As of March 31, 2016 and 2015, $24,947,378 and $21,969,810, respectively, are shown as deferred revenue - rate stabilization on the accompanying balance sheets.

### *Net Position Classification*

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

***Net investment in capital assets*** - consists of capital assets, net of accumulated depreciation and costs recoverable from future billings, 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 also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

***Restricted*** - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

***Unrestricted*** - consists of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

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

## Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

### *Income Taxes*

In accordance with certain provisions of the Internal Revenue Code, the Act and related governing laws and regulations, MEAN, as a local governmental entity, is exempt from federal and state income taxes.

### *Classification of Revenues*

Operating revenues include revenues resulting from provision and delivery of electric supplies to participants and customers and administrative fees charged for scheduling and other services provided to participants. Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities.

### *Rates and Charges*

MEAN annually determines its wholesale electric service rates and charges to recover costs of providing power supply services. In addition, rates and charges are established and collected in order to reasonably expect net revenues which, together with other available funds (including rate stabilization account funds), will be sufficient to pay the aggregate annual debt service for such year. A Pooled Energy Adjustment is included in MEAN's schedule of rates and charges and is used when necessary to recover the actual monthly energy costs in excess of budgeted monthly energy costs. Rates and charges for providing wholesale power supply are reviewed annually and adopted by MEAN's Board of Directors. The Electrical Resources Pooling Agreement provides for a Management Committee which sets certain rates based on the budget adopted by MEAN's Board of Directors. MEAN's power supply rates and charges are not subject to state or Federal regulation.

### *Change in Accounting Principle*

Restatements have been made to the 2015 financial statements as a result of a change in MEAN's treatment of certain revenues and costs for transactions within the day-ahead and real-time markets of regional transmission organizations and independent system operators (see Note 8). This resulted in MEAN increasing both electric energy sales and electric energy costs on the statements of revenues, expenses, and changes in net position by approximately $4,750,000 for 2015, and also increasing both cash received from participants and customers and cash paid to suppliers on the statements of cash flows for 2015 by the same amount. These restatements had no effect on the change in net position.

## Note 2: Deposits, Investments and Investment Return

### *Deposits*

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. MEAN's deposit policy for custodial credit risk requires compliance with the provisions of state law. State statutes require banks either to give bond or to pledge government securities to MEAN in the amount of MEAN's deposits.

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to $250,000 per official custodian at each covered institution. At March 31, 2016, MEAN's deposits exceeded FDIC coverage and collateral held by $1,134,000. At March 31, 2015, all of MEAN's deposits were insured and collateralized.

### *Investments*

MEAN's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. MEAN may invest in U.S. Treasury and U.S. agency securities, certificates of deposit, time deposits, banker's acceptances, commercial paper, municipal bonds and investment contracts. In the event that secured investment opportunities arise, other than those specified above, investment consent is required through the approval of two of the following: the Chair of the Board of Directors, Secretary-Treasurer of the Board of Directors or the MEAN Executive Director.

At March 31, 2016 and 2015, MEAN had the following investments, maturities and credit ratings:

| | | Maturities in Years | | Credit Rating |
|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 - 5 | Moody's/ S&P |
| **March 31, 2016** | | | | |
| Money market mutual funds - US agencies | $ 9,813,533 | $ 9,813,533 | $ - | Aaa-mf/AAAm |
| US agency obligations | 14,253,971 | 2,173,799 | 12,080,172 | Aaa/AA+ |
| Negotiable certificates of deposit | 16,036,925 | 7,251,941 | 8,784,984 | Not Rated |
| | $ 40,104,429 | $ 19,239,273 | $ 20,865,156 | |
| **March 31, 2015** | | | | |
| Money market mutual funds - US agencies | $ 8,981,163 | $ 8,981,163 | $ - | Aaa-mf/AAAm |
| US agency obligations | 14,614,128 | 1,000,898 | 13,613,230 | Aaa/AA+ |
| US agency obligations | 400,015 | 150,016 | 249,999 | Not Rated |
| Negotiable certificates of deposit | 12,222,943 | 5,962,891 | 6,260,052 | Not Rated |
| | $ 36,218,249 | $ 16,094,968 | $ 20,123,281 | |

## Note 2: Deposits, Investments and Investment Return – Continued

***Interest Rate Risk*** **-** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MEAN's investment policy does not place a limit on the amount that may be invested in any one maturity category. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

***Credit Risk*** **-** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MEAN's investment policy establishes requirements for certain investment securities or issuers of securities to be rated at certain rates or higher. The following investment types must be rated at the minimum rates noted below:

| | |
|---|---|
| Commercial paper | A-1, P-1 |
| Municipal bonds | AA- |

***Custodial Credit Risk*** **-** For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, MEAN would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At March 31, 2016 and 2015, certain investments in U.S. agency obligations, negotiable certificates of deposit and corporate bonds are held in safekeeping in MEAN's name, in a broker account with MEAN's primary financial institution. Additionally, any investments held in trust at March 31, 2016 and 2015, are held in a book entry system in an account designated as a customer account at the Depository Trust Company and the custodian's internal records identifies MEAN as the owner.

***Concentration of Credit Risk*** **-** Concentration of credit risk is the risk associated with the amount of investments MEAN 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. As of March 31, 2016 and 2015, each of MEAN's investments in negotiable certificates of deposit were covered by FDIC insurance, as the individual investments did not exceed $250,000, and were therefore also excluded from this requirement. MEAN's investment policy limits the amount of its investment portfolio that may be invested in any one issuer, other than U.S. government securities, to 10%. Allocation limits do not apply to the investment of proceeds from the issuance of debt as these investments are governed by the debt instrument. All of the money market mutual funds held at March 31, 2016 and 2015 are invested with MEAN's primary financial depository. This financial depository also serves as MEAN's Trustee and writer on the credit facilities discussed in Note 6.

### Note 2: Deposits, Investments and Investment Return – Continued

Concentrations greater than 5% at March 31, 2016 are shown below:

| | |
|---|---|
| U.S. sponsored agency obligations | |
| Federal Home Loan Bank | 7.24% |
| Federal Farm Credit Bank | 17.93% |
| Federal National Mortgage Association | 6.57% |

Concentrations greater than 5% at March 31, 2015 are shown below:

| | |
|---|---|
| U.S. sponsored agency obligations | |
| Federal Home Loan Bank | 15.76% |
| Federal Farm Credit Bank | 15.95% |
| Federal National Mortgage Association | 5.81% |

#### *Summary of Carrying Values*

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2016 and 2015 as follows:

| | 2016 | 2015 |
|---|---|---|
| Carrying Value | | |
| Deposits | $ 28,188,528 | $ 16,093,102 |
| Investments | 40,104,429 | 36,218,249 |
| | $ 68,292,957 | $ 52,311,351 |

### Note 2: Deposits, Investments and Investment Return – Continued

Included in the following balance sheet captions:

| | 2016 | 2015 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | | |
| Operating | $ 22,798,470 | $ 13,520,748 |
| Escrow | 67,119 | - |
| Rate stabilization fund | 5,322,939 | 2,577,354 |
| Debt service funds | 9,679,479 | 8,378,584 |
| Total | 37,868,007 | 24,476,686 |
| Short-term investments - rate stabilization fund | 7,501,955 | 6,113,065 |
| Noncurrent Assets | | |
| Long-term investments - rate stabilization fund | 9,035,324 | 7,359,095 |
| Restricted long-term investments | | |
| Construction fund | - | 590,578 |
| Debt reserve funds | 13,887,671 | 13,771,927 |
| Total | 13,887,671 | 14,362,505 |
| | $ 68,292,957 | $ 52,311,351 |

#### *Investment Return*

Investment return for the years ended March 31, 2016 and 2015 consisted of interest income and the net change in fair value of investments carried at fair value of $411,703 and $461,802, respectively.

## Note 3: Productive Capacity

Productive capacity at March 31, 2016 and 2015 consisted of the following:

| | Beginning Balance | Additions | Ending Balance |
|---|---|---|---|
| **March 31, 2016** | | | |
| Steam production | $ 185,303,027 | $ 955,365 | $ 186,258,392 |
| Wind production | 13,710,067 | - | 13,710,067 |
| Transmission | 10,707,966 | 29,586 | 10,737,552 |
| | 209,721,060 | 984,951 | 210,706,011 |
| Less accumulated depreciation | | | |
| Steam production | (61,496,282) | (7,946,388) | (69,442,670) |
| Wind production | (11,430,034) | (910,395) | (12,340,429) |
| Transmission | (1,470,856) | (190,083) | (1,660,939) |
| | (74,397,172) | (9,046,866) | (83,444,038) |
| Net productive capacity | $ 135,323,888 | $ (8,061,915) | $ 127,261,973 |
| **March 31, 2015** | | | |
| Steam production | $ 182,479,189 | $ 2,823,838 | $ 185,303,027 |
| Wind production | 13,710,067 | - | 13,710,067 |
| Transmission | 10,311,018 | 396,948 | 10,707,966 |
| | 206,500,274 | 3,220,786 | 209,721,060 |
| Less accumulated depreciation | | | |
| Steam production | (53,973,490) | (7,522,792) | (61,496,282) |
| Wind production | (10,519,639) | (910,395) | (11,430,034) |
| Transmission | (1,280,035) | (190,821) | (1,470,856) |
| | (65,773,164) | (8,624,008) | (74,397,172) |
| Net productive capacity | $ 140,727,110 | $ (5,403,222) | $ 135,323,888 |

### Note 4: Capital Assets

Capital assets at March 31, 2016 and 2015 consisted of the following:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|---|---|---|---|---|---|
| **March 31, 2016** | | | | | |
| Land | $ 489,000 | $ - | $ - | $ - | $ 489,000 |
| Buildings and improvements | 5,147,328 | - | - | - | 5,147,328 |
| Furniture, equipment and transportation equipment | 2,023,900 | 38,528 | (46,191) | - | 2,016,237 |
| | 7,660,228 | 38,528 | (46,191) | - | 7,652,565 |
| Less accumulated depreciation | (1,413,178) | (390,913) | 37,161 | - | (1,766,930) |
| Net capital assets | $ 6,247,050 | $ (352,385) | $ (9,030) | $ - | $ 5,885,635 |
| **March 31, 2015** | | | | | |
| Land | $ 489,000 | $ - | $ - | $ - | $ 489,000 |
| Buildings and improvements | 5,147,328 | - | - | - | 5,147,328 |
| Furniture, equipment and transportation equipment | 1,862,398 | 183,655 | (22,153) | - | 2,023,900 |
| Construction in progress | 16,552 | - | (16,552) | - | - |
| | 7,515,278 | 183,655 | (38,705) | - | 7,660,228 |
| Less accumulated depreciation | (1,039,468) | (388,480) | 14,770 | - | (1,413,178) |
| Net capital assets | $ 6,475,810 | $ (204,825) | $ (23,935) | $ - | $ 6,247,050 |

## Note 5: Costs Recoverable from Future Billings

Costs recoverable from future billings are comprised primarily of costs related to certain purchases of productive capacity, improvements on productive capacity and projects in which MEAN is a participant. The costs consist of the cumulative difference between depreciation recorded on certain productive capacity (primarily LRS, WSEC 4 and Wygen I) and capital assets and principal payments on debt issued to construct or purchase those assets. Upon implementation of GASB Statement No. 65, costs recoverable from future billings include certain debt issuance costs that are budgeted to be recovered through future electric rates. In 2013, transmission costs of approximately $6.3 million were capitalized in accordance with the regulated operations provisions of GASB Codification Section Re10, *Regulated Operations*. Costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

MEAN annually evaluates the probability that future revenues will be recognized through charging regulated rates to recover costs recoverable from future billings. As a result of this evaluation, no costs were removed in 2016 or 2015.

## Note 6: Credit Facilities

### *Line of Credit*

MEAN has a $20,000,000 revolving line of credit expiring May 31, 2017. During the years ended March 31, 2016 and 2015, no funds were advanced against the line. Interest varies at two percent (2%) above Daily One Month LIBOR in effect from time to time and is payable monthly.

### *Letters of Credit*

As financial security for MEAN's performance under certain financial transmission rights and transmission congestion rights in regional transmission organizations in which MEAN participates, MEAN has obtained two standby letters of credit totaling $4,500,000 at March 31, 2016. The $500,000 standby letter of credit was automatically renewed in April 2016, under an automatic annual renewal clause, to April 7, 2017. The $4 million standby letter of credit, expiring December 31, 2016, also includes an automatic annual renewal clause. The amount available under MEAN's revolving line of credit is reduced by the amount of the issued standby letters of credit.

## Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Agency for the year ended March 31, 2016:

| | 2016 | | | | |
|---|---|---|---|---|---|
| Type of Debt | April 1 2015 | Additions | Reductions | March 31 2016 | Due Within One Year |
| 3.000% - 5.000% Power Supply System Revenue and Refunding Bonds, Series 2013A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1, through 2019 and 2022 through 2025. Term principal payment due April 1, 2036. Mandatory sinking fund payments due annually April 1, 2033 through 2036. Redeemable at par on or after April 1, 2023. | $ 32,430,000 | $ - | $ 1,190,000 | $ 31,240,000 | $ 1,225,000 |
| 1.270% - 3.319% Power Supply System Revenue Bonds, Series 2013B (Federally Taxable). Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1, through 2022. | 6,795,000 | - | - | 6,795,000 | 960,000 |
| 3.000% - 5.000% Power Supply System Revenue Refunding Bonds, Series 2012A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1 through 2032. Redeemable at par on or after April 1, 2022. | 60,415,000 | - | 1,795,000 | 58,620,000 | 3,155,000 |
| 5.000% - 5.375% Power Supply System Revenue Refunding Bonds, Series 2009A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1 through 2024. Term payments due April 1, 2029 and 2039. Mandatory sinking fund payments due annually April 1, 2029 through 2039. Serial bonds redeemable at par on or after April 1, 2019. Term bonds redeemable by operation of sinking fund installments at the principal amount thereof. | 73,595,000 | - | 1,170,000 | 72,425,000 | 190,000 |
| Total long-term debt | 173,235,000 | - | 4,155,000 | 169,080,000 | 5,530,000 |
| Premium on long-term debt | 11,140,195 | - | 621,121 | 10,519,073 | - |
| Long-term debt, net | $ 184,375,195 | $ - | $ 4,776,121 | $ 179,599,073 | $ 5,530,000 |

## Note 7: Long-term Debt - Continued

The following is a summary of long-term debt transactions for the Agency for the year ended March 31, 2015:

| | 2015 | | | | |
|---|---|---|---|---|---|
| Type of Debt | April 1 2014 | Additions | Reductions | March 31 2015 | Due Within One Year |
| 3.000% - 5.000% Power Supply System Revenue and Refunding Bonds, Series 2013A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1, through 2019 and 2022 through 2025. Term principal payment due April 1, 2036. Mandatory sinking fund payments due annually April 1, 2033 through 2036. Redeemable at par on or after April 1, 2023. | $ 32,430,000 | $ - | $ - | $ 32,430,000 | $ 1,190,000 |
| 1.270% - 3.319% Power Supply System Revenue Bonds, Series 2013B (Federally Taxable). Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2016 through 2022. | 6,795,000 | - | - | 6,795,000 | - |
| 3.000% - 5.000% Power Supply System Revenue Refunding Bonds, Series 2012A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1 through 2032. Redeemable at par on or after April 1, 2022. | 62,155,000 | - | 1,740,000 | 60,415,000 | 1,795,000 |
| 5.000% - 5.375% Power Supply System Revenue Refunding Bonds, Series 2009A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1 through 2024. Term payments due April 1, 2029 and 2039. Mandatory sinking fund payments due annually April 1, 2029 through 2039. Serial bonds redeemable at par on or after April 1, 2019. Term bonds redeemable by operation of sinking fund installments at the principal amount thereof. | 74,710,000 | - | 1,115,000 | 73,595,000 | 1,170,000 |
| Total long-term debt | 176,090,000 | - | 2,855,000 | 173,235,000 | 4,155,000 |
| Premium on long-term debt | 11,761,316 | - | 621,121 | 11,140,195 | - |
| Long-term debt, net | $ 187,851,316 | $ - | $ 3,476,121 | $ 184,375,195 | $ 4,155,000 |

## Note 7: Long-term Debt - Continued

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at March 31, 2016 are as follows:

| Year Ending March 31, | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 5,530,000 | $ 8,187,179 | $ 13,717,179 |
| 2018 | 5,715,000 | 7,975,492 | 13,690,492 |
| 2019 | 5,945,000 | 7,723,901 | 13,668,901 |
| 2020 | 6,215,000 | 7,449,421 | 13,664,421 |
| 2021 | 5,050,000 | 7,192,504 | 12,242,504 |
| 2022-2026 | 29,080,000 | 32,025,307 | 61,105,307 |
| 2027-2031 | 29,895,000 | 24,638,059 | 54,533,059 |
| 2032-2036 | 40,105,000 | 15,996,219 | 56,101,219 |
| 2037-2040 | 41,545,000 | 4,602,644 | 46,147,644 |
| | $ 169,080,000 | $ 115,790,726 | $ 284,870,726 |

The Power Supply System Revenue Bonds listed above are special obligations of MEAN payable solely from and secured solely by a pledge of the Revenues and certain other funds and amounts pursuant to each applicable Bond Resolution. The Revenues consist of all income from MEAN's Power Supply System.

## Note 8: Electric Energy Sales

Electric energy sales for the years ended March 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Long-term total requirements | $ 107,382,259 | $ 103,932,511 |
| Limited-term total requirements | 13,489,741 | 28,836,932 |
| Interchange sales | 6,682,033 | 11,234,638 |
| | $ 127,554,033 | $ 144,004,081 |

MEAN has sixty-seven participating municipal utilities as of March 31, 2016 and 2015. Each of the participating municipal utilities, which consist of Nebraska, Colorado, Iowa and Wyoming municipalities; a public power district in Nebraska; and a power authority in Colorado, has entered into the Electrical Resources Pooling Agreement with MEAN. The Electrical Resources Pooling Agreement includes various service schedules under which MEAN provides power supply services.

## Note 8: Electric Energy Sales – Continued

### *Total Requirements*

As of March 31, 2016 and 2015, fifty-four participants have entered into long-term total requirements contracts. The long-term total requirements contracts extend through the final maturity of MEAN's outstanding long-term debt.

As of March 31, 2016 and 2015, five and six participants, respectively, have entered into limited-term total requirements contracts as one contract expired during 2016. The limited-term total requirements contracts vary in length, but are generally up to ten years. Subsequent to March 31, 2016, two participants have entered into limited-term total requirements contracts beginning June 1, 2016.

The total requirements agreements require MEAN to supply and obligate the participants to purchase, all capacity and energy in excess of each participant's firm power and energy allocations from Western Area Power Administration (WAPA), and include limited exceptions for certain generating facilities of Waverly Utilities, Iowa and Aspen, Colorado.

MEAN has contracted to collect payments for WAPA power and energy purchased by certain participants and remits these payments to WAPA. Since MEAN is only acting as an agent, these amounts are not reflected as revenue or expense in the Statements of Revenues, Expenses and Changes in Net Position. These amounts totaled approximately $6,549,000 and $7,204,000 during 2016 and 2015, respectively.

### *Service Power*

Each service power participant maintains full control and responsibility for its existing and future resources to meet its electric power and energy requirements. Seven municipalities and a power authority were service power participants during 2016. Six municipalities and a power authority were service power participants during 2015.

MEAN provides scheduling services in Southwest Power Pool's (SPP) Integrated Marketplace (IM) which began March 1, 2014 for three of the service power participants. The service power participants pay MEAN an administrative fee for the scheduling services provided. The administrative fee is included in other operating revenues on the Statements of Revenues, Expenses and Changes in Net Position. MEAN has contracted to collect payments for the service power participants participating in SPP IM and remit these payments to SPP and other transmission providers. Since MEAN is only acting as an agent, these amounts are not reflected as revenue or expense in the Statements of Revenues, Expenses and Changes in Net Position. These amounts totaled approximately $2,013,000 and $2,714,000 during 2016 and 2015, respectively. A service power participant may terminate participation by giving two years' written notice to MEAN.

## Note 8: Electric Energy Sales – Continued

### *Interchange Sales*

Interchange sales consist of short-to-medium term power sales agreements in and between the Western Electricity Coordinating Council (WECC), the Midcontinent Independent System Operator, Inc. (MISO) and SPP markets. In the MISO and SPP markets, MEAN records activity for each separately operated and settled market on an hourly basis. Net hourly energy transactions are evaluated on a net megawatt hour basis to determine whether the hourly transaction should be classified as a net purchase or net sale.

## Note 9: Electric Energy Costs and Power Supply Commitments

Electric energy costs for the years ended March 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Purchased power | $ 75,915,411 | $ 96,102,935 |
| Production | 19,133,634 | 21,091,475 |
| Transmission | 6,091,638 | 7,153,114 |
| | $ 101,140,683 | $ 124,347,524 |

### *Pooling Agreements*

The Electrical Resources Pooling Agreement allows for the purchase and sale of capacity and energy between MEAN and other power project participants at both fixed and variable rates under the applicable service schedules.

By execution of the Electrical Resources Pooling Agreement and a firm power service agreement under the applicable service schedule, twenty-one participants have committed total capacity and energy output of participant-owned generating units (approximately 154 MW) to MEAN. The Service Schedule M, Total Power Requirements Power Purchase Agreements provide that compensation for generating plants committed to pooling will be based upon the facilities' accredited capability and will be paid at the rate established in the Rate Schedule as modified from time to time upon the determination of the Board of Directors of MEAN. MEAN will also pay a proportionate share of fuel and operation and maintenance costs based on energy actually delivered at rates established by the Board of Directors of MEAN. For Service Schedule K, K-1 and J Participants, these rates are to be established by the Management Committee. The remaining participants who have not committed their total energy resources are able to make sales of available surplus capacity as requested by MEAN at various negotiated rates. Costs related to member generation capacity and energy output agreements are included in purchased power costs in the table above.

## Note 9: Electric Energy Costs and Power Supply Commitments - Continued

### *Purchased Power Contracts and Participation Agreements*

In addition to ownership interests in energy generation facilities, MEAN has purchased power contracts that provide for the purchase of capacity and wholesale firm and nonfirm energy from suppliers at negotiated rates. Power is purchased primarily for resale to participants of the Electrical Resources Pooling Agreements. Costs related to purchased power contracts and participation agreements are included in purchased power costs in the table above.

***Western Area Power Administration***

MEAN has an allocation from the U.S. Department of Energy, through WAPA, of firm power under contract from Loveland Area Projects hydroelectric plants of approximately 7 MW. MEAN's contract has been extended by amendment and currently runs through 2024. Various MEAN participants also have allocations through WAPA totaling approximately 113 MW. MEAN has contracted to collect payments for WAPA power and energy purchased by certain participants and remits these payments to WAPA as discussed in Note 8.

***Public Power Generation Agency***

MEAN and other utilities created an interlocal agency, the Public Power Generation Agency (PPGA), for the construction of Whelan Energy Center Unit 2 (WEC 2), a 220 MW coal-fired power plant. MEAN signed a participation power agreement with PPGA for 80 MW (36.36%) of the power output for the life of the plant. Under this agreement, each PPGA participant guarantees an allocated portion of PPGA's debt, which is paid by monthly participant billings.

In addition, under a power sales agreement, Hastings Utilities has agreed to sell capacity and associated energy from Hastings Utilities' entitlement share with PPGA at cost through April 2018. The amount of project output sold decreased from 8 MW on May 1, 2016 to 5 MW and decreases to 2 MW on May 1, 2017.

***Agreements with Nebraska Public Power District (NPPD)***

MEAN has entered into a multi-unit participation power sales agreement with NPPD for the purchase of power and energy from Gerald Gentleman Station and Cooper Nuclear Station of 50 MW which continues through December 31, 2023.

MEAN has entered into a 20-year participation power agreement with NPPD for the purchase of 7 MW of energy from the Ainsworth Wind Energy Facility. MEAN also participates in three Nebraska based wind plants through power sales agreements with NPPD: Laredo Ridge (8 MW), Elkhorn Ridge (8 MW) and Crofton Bluffs (4 MW). For each of these plants, NPPD has the actual power purchase agreement with the wind plant developer/owner.

## Note 9: Electric Energy Costs and Power Supply Commitments - Continued

***Agreement with Black Hills Power, Inc.***

MEAN has a power purchase agreement with Black Hills Power, Inc. (BHPL) which continues until May 31, 2023. Under this agreement, BHPL provides MEAN with the capacity and related energy output from Neil Simpson Unit 2 and Wygen Unit III which decreases from 20 MW down to 10 MW over the life of the contract.

***Other Agreements***

MEAN has also entered into power supply participation agreements whereby MEAN has agreed to share in the energy output of various projects in accordance with the anticipated needs of MEAN's participants. These contracts include wind, coal, hydroelectric and landfill gas generation and vary from 3 to 10 MW's per year.

### *Market Purchases*

MEAN participates in MISO, SPP and WECC markets. Costs related to market purchases and generation revenues received related to units dispatched into MISO and SPP and energy purchases in WECC are included in purchased power costs in the table above.

### *Production*

Production costs consist of MEAN's costs incurred to operate and maintain the wind project at Kimball and MEAN's ownership share of costs incurred to operate and maintain LRS, WSEC4 and Wygen Unit 1.

### *Transmission*

The transmission needs of MEAN and the total requirements participants are served by MISO, SPP and multiple transmission providers in the Western Interconnection. Transmission costs include network integration transmission service and point-to-point transmission service. Transmission costs also include the impact of auction revenue rights and transmission congestion rights in SPP and auction revenue rights and financial transmission rights in MISO. These financial instruments were primarily designed to allow firm transmission customers the opportunity to offset price differences due to transmission congestion costs between resources and loads.

MEAN has contracted to collect payments for transmission service purchased on behalf of certain participants and remits these payments to the respective providers. Since MEAN is only acting as an agent, these amounts are not reflected as revenue or expense in the Statements of Revenues, Expenses and Changes in Net Position. The transmission service purchased by the participants, that MEAN was responsible for collecting and remitting to the respective transmission providers, totaled approximately $12,971,000 and $13,532,000 during 2016 and 2015, respectively.

## Note 10: Transactions with Coalition Members

MEAN, NMPP, NPGA and ACE through common members and management comprise a coalition. MEAN shares personnel and facilities within this coalition, as well as enters into agreements for certain products and services.

Amounts due from coalition members are included within accounts receivable and amounts due to coalition members are included in accounts payable and accrued expenses on the balance sheets.

A summary of amounts due from and due to coalition members at March 31, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Due from NPGA | $ 3,185 | $ 4,656 |
| Due from NMPP | - | 265,546 |
| Due from ACE | 3,167 | 3,709 |
| Due from coalition members | $ 6,352 | $ 273,911 |
| Due to NMPP | $ 154,424 | $ - |

MEAN incurred expenses of approximately $5,750,000 and $5,100,000 for administrative services provided by NMPP during 2016 and 2015, respectively. In 2016 and 2015, MEAN billed coalition members approximately $120,000 and $130,000, respectively, for the use of equipment and furniture.

## Note 11: Risk Management

MEAN is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; accidents; and natural disasters. MEAN carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

## Note 12: Significant Estimates and Concentrations

### *Environmental Regulations*

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory, and judicial action regarding such standards and procedures. Consequently, there is no assurance that MEAN's facilities will remain subject to the regulations currently in effect, will meet future obligations without retrofit, that MEAN can anticipate the outcome of current regulatory and legislative process, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital and operating expenditures to comply, reduced operating levels or the complete shutdown of individual units not in compliance. As necessary, MEAN will make application to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law and regulations for the operations of its existing plants, and for the construction of capital additions and improvements.

## Note 13: Contingencies

### *Claims and Judgments*

From time to time, MEAN is party to various claims, public records requests, and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the financial statements of MEAN.