

**NORTHEAST NEBRASKA PUBLIC POWER DISTRICT
WAYNE, NEBRASKA**

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

FREEMAN & RIGGS

Certified Public Accountants

FREMONT, NEBRASKA
OMAHA, NEBRASKA

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT
WAYNE, NEBRASKA

	<u>Page</u>
Board of Directors and General Manager	1
Management's Discussion and Analysis	2 – 5
Independent Auditors' Report	6 – 7
Statements of Net Position	8
Statements of Revenue and Expense and Change in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 – 18
Report Required by <u>Government Auditing Standards</u> Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	19 – 20

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT

BOARD OF DIRECTORS AND GENERAL MANAGER

Donald Larsen, President
Wayne, Nebraska

Paul Bodlak, Vice President
Emerson, Nebraska

Tom Gustafson, Treasurer
Wakefield, Nebraska

Dan Gansebom, Secretary
Osmond, Nebraska

Sylvester Kneifl, Director
Newcastle, Nebraska

Diane Newton, Director
Jackson, Nebraska

Larry Silhacek, Director
Pierce, Nebraska

David Lebsock, Director
Ponca, Nebraska

Mark Shults, General Manager
Wayne, Nebraska

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Northeast Nebraska Public Power District's annual financial report presents an analysis of the District's financial performance during the fiscal year January 1, 2015 through December 31, 2015. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015

- The District's utility plant increased by \$1,463,012 from \$56,843,441 to \$58,306,453.
- Operating revenue decreased by \$868,937 from \$24,528,265 to \$23,659,328.
- Operating expenses decreased by \$452,789 from \$21,084,972 to \$20,632,183, a decrease in the cost of delivered wholesale power (due to reduced kWh sales) amounted to \$574,709. Expenses under management control increased by approximately \$69,000 when excluding depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

Northeast Nebraska Public Power District is a distribution system serving approximately 8,300 customers in Northeast Nebraska. The system has a total of 2,799 miles of energized lines. A break down of the number of customers in each rate class is found in this report. The district headquarters is located in Wayne, Nebraska. The district employs a total of 31 people in full-time positions.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District uses the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Cash Flows identifies the District changes in plant, investments, assets and liabilities for the years ending December 31, 2015 and 2014. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. This statement also provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following summarizes Northeast Nebraska Public Power District's financial position at December 31, 2015 and 2014.

STATEMENT OF NET POSITION	2015	2014
Net Utility Plant	\$41,025,076	\$39,425,730
Total Other Property & Investments	2,634,416	3,218,331
Current & Accrued Asset	7,171,413	6,694,358
Other Deferred Outflow of Resources	<u>684,205</u>	<u>775,183</u>
Total Assets	\$51,515,110	\$50,113,602
Total Net Position	\$40,911,112	\$37,792,396
Total Long Term Debt	5,694,779	6,841,144
Current & Accrued Liabilities	<u>4,909,219</u>	<u>5,480,062</u>
Total Liabilities & Net Position	\$51,515,110	\$50,113,602

The following summarizes Northeast Nebraska Public Power District's operating results.

STATEMENTS OF REVENUE AND EXPENSE	2015	2014
Operating Revenue	\$23,659,328	\$24,528,265
Other Electric Revenue	191,505	63,922
Interest	42,620	41,533
Capital Credits	45,435	43,495
Interest & Long-Term Debt Exp	187,989	201,026
Operating Expenses	<u>20,632,183</u>	<u>21,084,972</u>
Net Margins	\$3,118,716	\$3,391,217

LONG-TERM DEBT

As of December 31, 2015, the District had \$5,694,779 in outstanding debt compared to \$6,841,143 as of December 31, 2014.

Total interest paid for 2015 fiscal year was \$187,989 compared to \$201,026 in 2014.

A BRIEF DISCUSSION BY MANAGEMENT

The last paragraph of management's comments in the 2014 audit states:

"The District's cost control efforts coupled with our debt reduction plans and cost savings for transmission line construction makes us believe the District will be extremely well positioned to meet its future responsibilities for providing least cost and reliable service to our area."

There are a lot of important concepts in that one statement. Northeast Power has made plans and is successfully executing those plans.

The purchase of wholesale bulk power continued to be the largest single expense incurred by Northeast Power in providing service. The cost of delivered bulk power in 2015 took 66% of all revenue collected from customers' electric bills. We are on track to lower that cost substantially starting in 2018 as a result of competitively bidding for future bulk power supply. Just as significant is the opportunity to use competitive bidding in the future as a tool to keep power cost as low as possible.

Northeast Power uses the remaining 34% of revenue to provide local poles, wires, substations, and services to our customers. This portion of the customer's electric bill pays for the operation and maintenance of Northeast Power's electric system, the cost of metering and rendering bills, taxes, interest on debt and an allowance for depreciation in the value of our electric plant due to wear and tear. We also collect some money to pay as we go on rebuilding electric lines. As a percentage of total revenue paid by customers these cost represent:

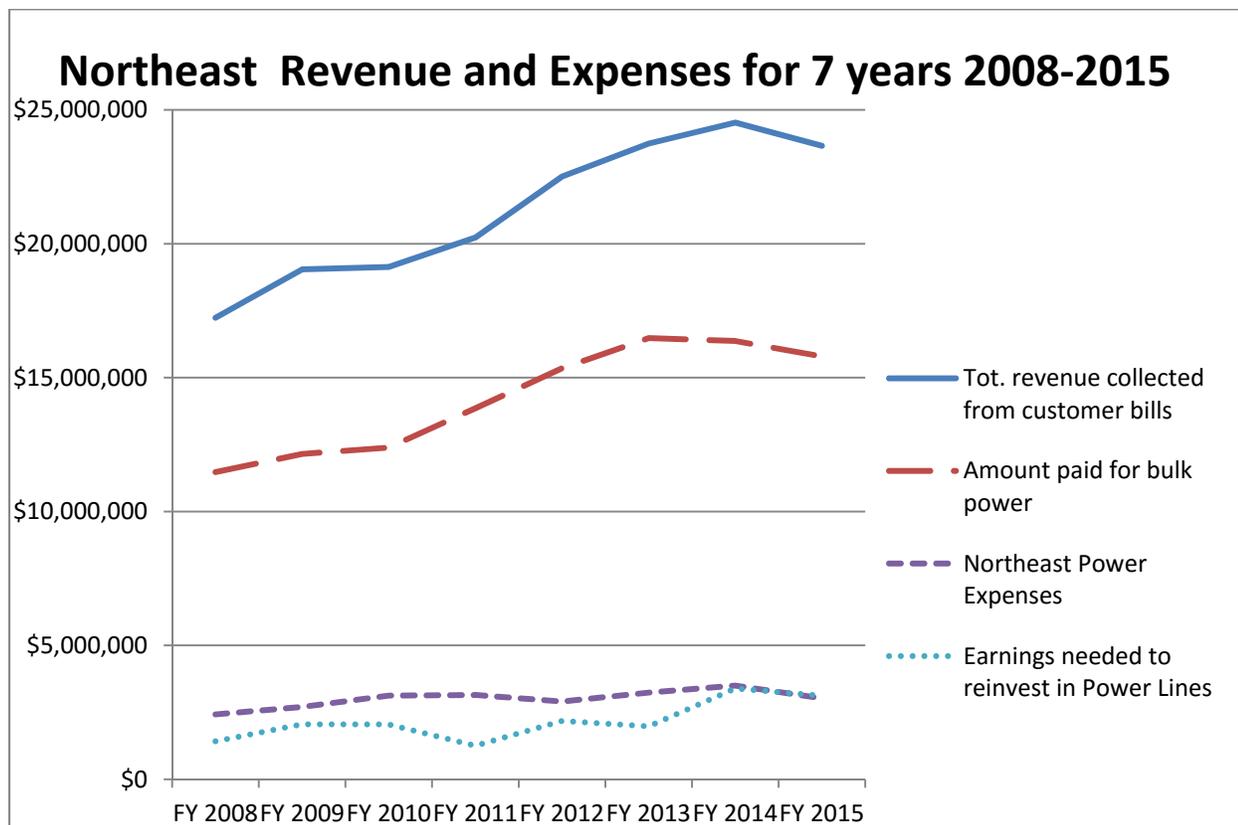
- Operations and Maintenance 6%
- Billing, accounting and customer expense functions 2%
- General Administrative and overhead costs 5%
- Interest expense on debt 1%
- As allowance for wear and tear (depreciation) 8%
- Earnings kept to pay as we go on improving plant 12%

About 4 years ago, the Board of Directors set a goal of being debt free by 2021. We are pleased to report again this year that remain on target. Management restructured Northeast Power's debt and accelerated repayment in a way that the cash required for repaying loan principal begins to decrease in 2017, with very little debt remaining in 2021. This will give our customers an extra financial cushion should some unexpected need arise in the future. It is not expected that Northeast Power will remain debt free, but not being encumbered with debt in the near term, will provide future management with options about financing future construction.

Northeast Power is now making a large and ongoing investment in high voltage transmission lines which support all customers. The existing high voltage lines were first built in the 1950's and have reached the end of their useful life. Our line crews, engineers and management staff have grown in their abilities and are up to the job of rebuilding these lines with our own workforce to save labor cost. In early 2016, the second transmission project from Ponca to Martinsburg was completed. Our plans for rebuilding all 100 miles of transmission lines are on schedule.

Below is a graph depicting how cost have changed over time. Notice at the bottom of the chart that both Northeast’s expenses and retained earnings have remained stable. The rate increases of recent years have been due to increases in the cost of wholesale bulk power. For 2015, the totals amounts in dollars shown below are:

Earnings to reinvest in new electric plant is approximately	\$4 million
Local expenses required by Northeast Power is approximately	\$4 million
Cost of wholesale delivered bulk power is approximately	\$16 million
Total Revenue Collected from Customers is approximately	\$24 million



FREEMAN & RIGGS

RONALD V. FREEMAN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

LAURA RIGGS, CPA

The Board of Directors
Northeast Nebraska Public Power District
Wayne, Nebraska

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Nebraska Public Power District, which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenue and expense and changes in net position and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise the District'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Nebraska Public Power District as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 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 inquires 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2016, on our consideration of Northeast Nebraska Public Power District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Omaha, Nebraska
April 21, 2016

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

<u>ASSETS (Note 2)</u>	<u>2015</u>	<u>2014</u>
Utility Plant (Note 3)		
Electric plant, at cost	\$58,306,453	\$56,843,441
Depreciation	<u>17,281,377</u>	<u>17,417,711</u>
Net electric plant	<u>41,025,076</u>	<u>39,425,730</u>
Investments (Note 4)	<u>2,634,416</u>	<u>3,218,331</u>
Current Assets		
Cash and cash equivalents	2,950,211	1,929,119
Held-to-maturity securities	1,234,000	1,322,224
Receivables (Less provision for uncollectible accounts of \$28,982 in current period and \$8,755 in prior period)	1,499,954	1,984,790
Materials	1,352,029	1,288,231
Prepayments	<u>135,219</u>	<u>169,994</u>
Total Current Assets	<u>7,171,413</u>	<u>6,694,358</u>
Deferred Outflow Resources (Note 7)	<u>684,205</u>	<u>775,183</u>
Total Assets	<u>\$51,515,110</u>	<u>\$50,113,602</u>
<u>LIABILITIES AND NET POSITION</u>		
Net Position		
Invested in capital assets, net of related debt	\$34,058,928	\$31,362,087
Restricted for debt service	1,429,756	1,423,526
Unrestricted	<u>5,422,428</u>	<u>5,006,783</u>
Total net position	<u>40,911,112</u>	<u>37,792,396</u>
Long-Term Liabilities (Note 8)	<u>5,694,779</u>	<u>6,841,144</u>
Current Liabilities		
Current maturities of long-term debt	1,271,369	1,222,500
Accounts payable	2,726,833	3,287,258
Accrued expenses	523,198	557,074
Accrued taxes	96,976	103,818
Customer deposits	<u>290,843</u>	<u>309,412</u>
Total current liabilities	<u>4,909,219</u>	<u>5,480,062</u>
Commitments and Related Party Transactions (Note 11)		
Total Liabilities and Net Position	<u>\$51,515,110</u>	<u>\$50,113,602</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

STATEMENTS OF REVENUE AND EXPENSE AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenue		
Electric energy revenue	\$23,241,051	\$24,107,760
Miscellaneous electric revenue	418,277	420,505
Total Operating Revenue	<u>23,659,328</u>	<u>24,528,265</u>
Operating expenses		
Cost of power purchased	13,395,138	14,300,573
Operating expenses – transmission	2,396,635	2,065,909
Operating expenses – distribution	615,873	680,397
Maintenance of distribution plant	675,917	673,442
Accounting and collection expenses	506,734	451,637
Other customer expenses	38,007	28,865
Administrative and general	1,204,084	1,136,984
Depreciation	1,779,149	1,724,281
Taxes	20,646	22,884
Total Operating Expenses	<u>20,632,183</u>	<u>21,084,972</u>
Electric operating revenue	3,027,145	3,443,293
Less interest on long-term debt	187,989	201,026
Operating Revenue Before Capital Credits	<u>2,839,156</u>	<u>3,242,267</u>
G&T and Other Capital Credits	45,435	43,495
Operating Revenue	<u>2,884,591</u>	<u>3,285,762</u>
Interest revenue	42,620	41,533
Other revenue	191,505	63,922
Nonoperating Revenue	<u>234,125</u>	<u>105,455</u>
Net Revenue	3,118,716	3,391,217
Net Position, Beginning of Year	<u>37,792,396</u>	<u>34,416,413</u>
Subtotal	40,911,112	37,807,630
Prior year's adjusting entries	-	15,234
Net Position, End of Year	<u>\$40,911,112</u>	<u>\$37,792,396</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Cash received from customers	\$24,144,164	\$24,578,835
Cash paid to suppliers and employees	(18,953,914)	(19,249,134)
Interest received	42,620	41,533
Interest paid	<u>(187,989)</u>	<u>(201,026)</u>
Net Cash Provided by (Used In) Operating Activities	<u>5,044,881</u>	<u>5,170,208</u>
Cash Flows from Investing Activities		
Investment in plant	(3,652,478)	(4,379,858)
Decrease (Increase) in materials inventory	(63,798)	(394,724)
Deferred outflow of resources	90,978	101,272
Decrease (Increase) in held-to-maturity securities	88,224	(229,224)
Decrease (Increase) in other investments	<u>629,350</u>	<u>(721,776)</u>
Net Cash Provided by (Used In) Investing Activities	<u>(2,907,724)</u>	<u>(5,624,310)</u>
Cash Flows from Financing Activities		
Long-term borrowing	1,970,000	815,000
Principal payments of long-term debt	(3,067,496)	(1,118,700)
Increase (Decrease) in other capital	-	<u>(15,234)</u>
Customer deposits	<u>(18,569)</u>	<u>9,795</u>
Net Cash Provided by (Used In) Financing Activities	<u>(1,116,065)</u>	<u>(309,139)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,021,092	(763,241)
Cash and Cash Equivalents		
Beginning of Year	<u>1,929,119</u>	<u>2,692,360</u>
End of Year	<u>\$2,950,211</u>	<u>\$1,929,119</u>
Reconciliation of Net Revenue to Net Cash Provided from Operating Activities		
Net Revenue	\$3,118,716	\$3,391,217
Adjustments to reconcile new revenue to net cash provided by operating activities:		
Depreciation	1,779,149	1,724,282
Depreciation charged to clearing	273,983	278,599
Patronage capital credits assigned by associated organizations	(45,435)	(43,495)
Decrease (Increase) In:		
Receivables	484,836	196,968
Prepaid expenses	34,775	(9,393)
Increase (Decrease) In:		
Accounts payable	(560,425)	(289,354)
Accrued liabilities	(40,718)	24,777
Deferred inflow of resources	<u>-</u>	<u>(103,393)</u>
Net adjustments	<u>1,926,165</u>	<u>1,778,991</u>
Net Cash Provided by (Used In) Operating Activities	<u>5,044,881</u>	<u>5,170,208</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(1) Nature of Organizations:

Northeast Nebraska Public Power District (the District), a public corporation and political subdivision of the State of Nebraska furnishes electric power to consumers in counties in Northeastern Nebraska. The headquarters is located in Wayne, Nebraska. The control of the District and its operations is vested in a Board of Directors who is elected from districts comprising subdivisions of the District's chartered territory.

(2) Summary of Significant Accounting Policies:

Basis of Accounting

The financial statements of the District are presented in accordance with generally accepted accounting principles for proprietary funds of governmental entities. Accounting records are maintained generally in accordance with the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS) and all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Utility Plant

The District employs the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission, as modified for borrowers of the National Rural Utilities Cooperative Finance Corporation (CFC), and the work order procedures suggested by the Rural Utilities Service (RUS).

Investments and Fair Value of Financial Instruments

The carrying amounts of cash, receivables, and short-term obligations are recorded at cost which approximates their fair value because of the near-term maturity of those instruments.

The District is a member of various cooperatives and associations. Equity investments in other cooperatives representing patronage capital are accounted for at the stated amount of the certificates. Patronage refunds are recognized upon notification by the distributing cooperative and are returned to the District based upon the respective entity's bylaws.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Held-to-Maturity Securities

The District classifies certificates of deposit purchased with a maturity of more than three months and up to and including one year as held-to-maturity securities.

Accounts Receivable and Allowance for Doubtful Accounts

The District carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the District evaluates its electric accounts receivable and establishes an allowance for doubtful accounts, based on past history of bad debt write-offs, collections and current credit conditions. Accounts receivable are considered past due if payment is not received by the due date of the bill. Accounts are written off, by Board action. Payments received on accounts after they are written off are considered a recovery of bad debt. As of December 31, 2015 and 2014, the District had approximately \$34 and \$1,320, respectively, in electric accounts receivable and were over 90 days old and the balance in the allowance for doubtful accounts was approximately \$28,982 and \$8,755, respectively.

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

Concentration of Credit Risk

Northeast Nebraska Public Power District is an electric distribution system. The District grants credit to customers, substantially all are local residents.

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Materials and Supplies

Materials and supplies are included in the financial statements at average cost. Usable material from plant retirements is returned to inventory at current average cost. A physical inventory is taken at least once each year.

Deferred Outflow of Resources

Amortization of deferred outflow of resources is authorized by the Board of Directors.

Electric Energy Sales

Sales of electric energy are accrued in the period of consumption. Material unbilled amounts between the last billing date and the end of the year are estimated and accrued at year end.

Income Tax Status

The District, as a political subdivision of the State of Nebraska, is exempt from federal and state income taxes.

Net Position

Net Position is reported in three separate components on the Statement of Net Position. Net Investment in Capital Assets is the net position share attributed to net utility plant assets reduced by outstanding, related debt. Restricted is the share of net position that has usage restraints imposed by law or by debt covenants, such as certain revenue bond funds and segregated funds, net of related liabilities. Unrestricted is the share of net position that is neither restricted nor invested in capital assets.

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

(3) Electric Plant and Depreciation Procedures:

Listed below are the major classes of the electric plant as of December 31,

	<u>2015</u>	<u>2014</u>
Intangible plant	\$2,330	\$2,330
Transmission plant	4,162,709	3,200,490
Distribution plant	45,890,133	43,360,087
General plant	<u>7,745,731</u>	<u>7,506,215</u>
Electric plant in service	57,800,903	54,069,122
Construction work in progress	<u>505,550</u>	<u>2,774,319</u>
	58,306,453	56,843,441
Accumulated depreciation:		
Transmission plant	1,668,215	1,577,340
Distribution plant	12,467,247	12,563,717
General plant	3,187,408	2,980,651
Acquired plant	<u>1,641</u>	<u>1,641</u>
	17,324,511	17,123,349
Requirement work in progress	<u>(43,134)</u>	<u>294,362</u>
	<u>17,281,377</u>	<u>17,417,711</u>
Net Utility Plant	<u>\$41,025,076</u>	<u>\$39,425,730</u>
Depreciation expense:		
Transmission plant	\$95,011	\$93,010
Distribution plant	1,551,641	1,500,276
General plant	<u>132,497</u>	<u>130,995</u>
Total Depreciation Expense	<u>\$1,779,149</u>	<u>\$1,724,281</u>

Provision has been made for depreciation of transmission and distribution plant on straight-line composite rates of 2.75% and 3.05% respectively. General plant depreciation rates have been applied on a straight-line unit basis at rates which will depreciate the assets over their estimated useful lives.

(4) Investments:

At December 31, investments included:

	<u>2015</u>	<u>2014</u>
Equities in other organizations	\$1,146,700	\$1,126,028
Restricted fund – Security deposit	187,067	185,823
Restricted fund – Bond reserve funds	1,001,649	1,507,480
Held-to-maturity securities:		
Certificates of deposit – (long-term)	<u>299,000</u>	<u>399,000</u>
Total	<u>\$2,634,416</u>	<u>\$3,218,331</u>

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

(4) Investments (continued):

At December 31, equities in other organizations are as follows:

	<u>2015</u>	<u>2014</u>
Nebraska Electric G&T Cooperative, Inc		
Membership	\$100	\$100
Capital credits	57,662	56,486
National Rural Utilities Cooperative Finance Corporation (CFC)		
Membership	1,000	1,000
Capital Term Certificates	245,815	245,815
Capital Credits	2,058	1,459
National Rural Telecommunications Cooperative	644,962	659,212
Federated Rural Electric Insurance Exchange	110,863	93,038
Midplains Energy Service Alliance (ESCO)	21,201	21,275
Cooperative Response Center		
Membership	10,000	10,000
Capital Credits	2,668	1,452
Other organizations	<u>50,371</u>	<u>36,191</u>
Total	<u>\$1,146,700</u>	<u>\$1,126,028</u>

(5) Held-To-Maturity Securities:

The cost and market value of held-to-maturity securities at December 31, 2015 include the following:

	<u>Amortized Cost</u>	<u>Market Value</u>
Certificates of Deposit	\$1,234,000	\$1,234,000

The cost and market value of held-to-maturity securities at December 31, 2014 include the following:

	<u>Amortized Cost</u>	<u>Market Value</u>
Certificates of Deposit	\$1,322,224	\$1,322,224

Notes to Financial Statements

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

(6) Insurance Coverage:

Insurance coverage in force at December 31, 2015, provided by Federated Rural Electric Insurance Exchange is as follows:

Physical damage of property	
Buildings and personal property (\$500 deductible)	\$19,892,252
Damage to owned automobiles	
Comprehensive (\$1000 deductible)	Actual cash value
Collision (\$500 deductible)	Actual cash value
Extra expense:	100,000
Accounts receivable	100,000
Valuable papers:	100,000
Public Liability:	
Personal injury and property damage liability (per occurrence)	2,000,000
Medical payments:	
Each person	1,000
Each occurrence	10,000
Crime Coverage:	
Blanket Coverage	
Employee dishonesty, Money and Securities:	500,000
Each occurrence	4,000,000
Commercial Umbrella (\$10,000 retained limit):	4,000,000
Directors', Officers', Managers' Liability and Corporate Indemnification:	5,000,000
Workers' Compensation Insurance (Employers' Liability)	500,000

(7) Deferred Outflow of Resources:

At December 31, deferred outflow of resources consisted of the following:

	<u>2015</u>	<u>2014</u>
NRECA RS Prepayment	\$658,383	\$748,162
Staking software	17,990	26,294
Customer Incentives	5,240	-
Other	<u>2,592</u>	<u>727</u>
Total	<u>\$684,205</u>	<u>\$775,183</u>

The National Rural Electric Cooperative Association (NRECA) Retirement Security (RS) Pension Plan prepayment (Note 10) is being amortized over 10 years. Total amortization during the 2015 period was \$89,779.

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

(8) Long-Term Liabilities:

The proceeds of debt issued are utilized primarily to finance the construction program. Electric System Revenue Bonds are payable from and secured by a pledge of the lien upon the revenues of the District. Lien accommodations have been executed with CFC.

Following is a summary of outstanding long-term debt as of December 31:

	<u>2015</u>	<u>2014</u>
Electric System Revenue Bonds, Series 2010	\$ -	\$1,305,000
Electric System Revenue Bonds, Series 2010B	-	665,000
Electric System Revenue Bonds, Series 2011	2,640,000	3,010,000
Electric System Revenue Bonds, Series 2012	1,385,000	1,645,000
Electric System Revenue Bonds, Series 2014	<u>725,000</u>	<u>815,000</u>
Subtotal	4,750,000	7,440,000
CFC fixed term note at 2.05%, maturing 2018	436,148	623,644
Co Bank fixed term loan at 2.35%, maturing 2022	<u>1,780,000</u>	-
Less: Current maturities	<u>1,271,369</u>	<u>1,222,500</u>
Total Long-Term Liabilities	<u>5,694,779</u>	<u>\$6,841,144</u>

On March 30, 2012 the District issued \$1,905,000 of Electric System Revenue Refunding Bonds, Series 2012 to cancel and refinance the remainder of Series 2007 bonds. Principal and interest payments during the audit period amounted to \$282,345. The bonds are callable on or after March 30, 2017. The bonds mature on September 15, as follows:

<u>Year</u>	<u>Rate</u>	<u>Amount</u>
2016	0.85	265,000
2017	1.05	265,000
2018	1.35	270,000
2019	1.60	90,000
2020	1.80	105,000
2021	0.00	-
2022	2.15	390,000

On June 15, 2011 the District issued \$4,000,000 of Electric System Revenue Refunding Bonds, Series 2011 to cancel and refinance a partial amount of Series 2007 bonds. Principal and interest payments during the audit period amounted to \$453,585. The bonds are callable on or after May 3, 2017. The bonds mature on February 1, as follows:

<u>Year</u>	<u>Rate</u>	<u>Amount</u>
2016	2.15	375,000
2017	2.50	380,000
2018	2.85	390,000
2019	3.20	405,000
2020	3.45	415,000
2021	3.60	675,000

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

(8) Long-Term Liabilities (continued):

On June 15, 2010, the District issued \$1,980,000 of Electric System Revenue Refunding Bonds, Series 2010 to cancel and refinance Series 2003 and Series 2005 bonds. The bonds were called in 2015.

On June 15, 2010, the District issued \$1,645,000 of Electric System Revenue Refunding Bonds, Series 2010B to cancel and refinance various RUS loans. The bonds were called in 2015.

In 2014, the District issued \$815,000 of Electric System Revenue Refunding Bonds, Series 2014. Principal and interest payments during the audit period were \$194,372. The bonds mature on October 1, as follows:

Year	Rate	Amount
2016	.65	90,000
2017	.95	90,000
2018	1.25	90,000
2019	1.60	95,000
2020	1.90	120,000
2021	2.15	120,000
2022	2.35	120,000

As of December 31, 2015, approximate principal and interest payments are due as follows:

Year Ending December 31	Principal Payments	Interest	Total
2016	1,271,369	158,387	\$1,429,756
2017	1,270,322	134,361	1,404,683
2018	1,119,457	109,088	1,228,545
2019	890,000	84,379	974,379
2020	940,000	60,643	1,000,643
2021 – 2025	1,475,000	41,191	1,516,191

(9) Line of Credit:

The District has lines of credit with CFC and Co Bank in the amounts of \$3,750,000 and \$1,000,000, respectively. At December, 31, 2015 there were no funds advanced on the lines of credit.

(10) Pension Plan:

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Notes to Financial Statements

NORTHEAST NEBRASKA PUBLIC POWER DISTRICT (NE-107)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

continued

(10) Pension Plan (continued):

The District's contributions to the RS Plan in 2015 and in 2014 represented less than 5 percent of the total contributions made to the plan by all participating employers. The District made contributions to the plan for years ended December 31, 2015 and 2014 of approximately \$273,259 and \$293,060, respectively. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2015 and over 80 percent funded on January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The District offers a 401(K) Savings Plan through NRECA for employees under which union employees are required to contribute 3% of their salary as a condition of participation with voluntary contributions also allowable. The District amended the plan January 1, 2004 changing the District's contribution rate to 3% for union employees. Non-union employees receive 7.5%. The District's contributions for the years ended December 31, 2015 and 2014 were \$92,808 and \$93,140, respectively.

(11) Commitments and Related Party Transactions:

Under its wholesale power agreement, the District is committed to purchase its electric power and energy requirements from Nebraska Public Power District, Columbus, Nebraska. The contract is subject to periodic rate reviews. Following is a summary of transactions and balances with the affiliate for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Cost of power purchased	\$13,395,138	\$14,300,573
Accumulated capital credits assigned to the District by the G&T	56,762	56,586
Capital credits assigned to the District during year by the G&T	1,175	1,023
Due to Nebraska Public Power District (included in the accompanying balance sheets)	2,499,479	2,997,304

(12) Protection Against Losses in Depository:

The amounts pledged added to FDIC insurance were adequate to cover the funds on deposit at December 31, 2015. All funds of the District are deposited in banks or institutions secured by the Federal Deposit Insurance Corporation, or are secured with pledged securities, unless otherwise approved by the Board of Directors.

FREEMAN & RIGGS

RONALD V. FREEMAN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

LAURA RIGGS, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Northeast Nebraska Public Power District
Wayne, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Nebraska Public Power District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Northeast Nebraska Public Power District's basic financial statements, and have issued our report thereon dated April 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Nebraska Public Power District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Nebraska Public Power District's internal control, accordingly, we do not express an opinion on the effectiveness of Northeast Nebraska Public Power District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Nebraska Public Power District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Omaha, Nebraska
April 21, 2016