

Nebraska Utility Corporation

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

June 30, 2021 and 2020

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Contents



Independent Auditor's Report

Board of Directors
Nebraska Utility Corporation
Lincoln, Nebraska

We have audited the accompanying financial statements of Nebraska Utility Corporation, a component unit of the University of Nebraska, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Nebraska Utility Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Utility Corporation as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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 considered 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.



Lincoln, Nebraska
September 10, 2021

Management's Discussion and Analysis (MD&A) (Unaudited)

SIGNIFICANT EVENTS

- Work continued on improving the steam tunnel infrastructure on both East and City campuses. This project involves renovating and renewing steam tunnels and vaults which includes insulation, expansion joints, anchors, steam traps, isolation valves and structural repairs. This project will increase safety, reliability, and longevity of the steam distribution system.
- The installation of a new boiler (#8) to replace existing boiler (#6) on City campus continued. The existing boiler, installed in 1969, has reached the end of its useful life and has experienced major tube leaks and foundation settling and is no longer operational. A new boiler is required to meet campus demand while maintaining adequate steam production redundancy.
- The replacement of the 60,000 pound/hour boiler (#3) with two 30,000 pound/hour boilers on East campus is underway. Replacement of the deaerator and feedwater pumps and the installation of the condensate polisher will reduce chemicals, water and energy use. This project will provide greater energy efficiency and fault tolerance.

FINANCIAL REPORT OVERVIEW

The information provided in the MD&A section of the Financial Report is provided to explain

FINANCIAL POSITION AND OPERATING RESULTS

The following table summarizes the financial position as of June 30:

CONDENSED BALANCE SHEETS

Current Assets	\$ 8,073,491	\$10,051,118	\$ 9,291,494
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Total liabilities in 2020 decreased \$1,101,702 or 5% below 2019 mainly due to a reduction of long-term debt. Current liabilities increased \$491,425 due primarily to an increase in payables to UNL as a result of higher operations and maintenance expenses. Noncurrent liabilities decreased \$1,593,127 primarily due to a principal payment for the revenue bonds.

Comparison of 2020 to 2019

Operating revenues for 2020 were \$28,482,485, a decrease of \$1,643,578 from 2019 operating revenues of \$30,126,063. The decrease was primarily due to lower UNL utility consumption as a result of the campus closures from the COVID-19 pandemic.

OPERATING EXPENSES

The following chart illustrates operating expenses by category.

Comparison of 2021 to 2020

Operating expenses for 2021 were \$21,617,765, a decrease of \$400,237 from 2020 operating expenses of \$22,018,002. The decrease was due to lower natural gas, electrical and labor expenses. These decreases were offset by higher steam service expenses as a result of increased repairs and maintenance.
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CONDENSED STATEMENTS OF CASH FLOWS



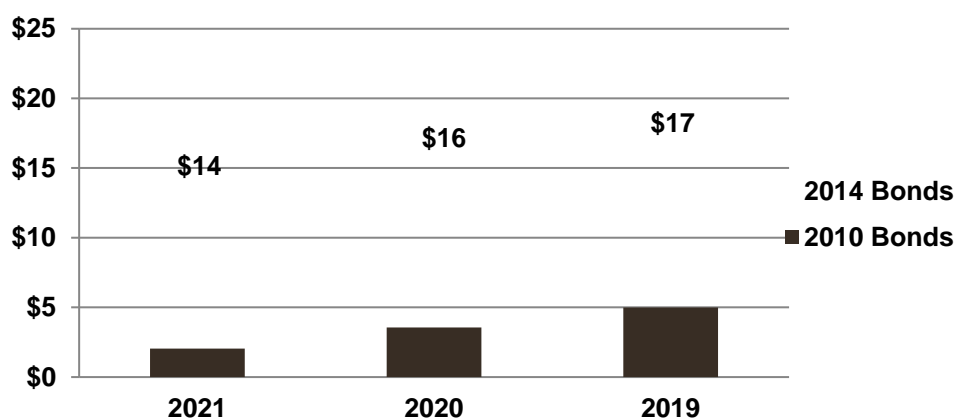
FINANCING

Sufficient liquidity is maintained to ensure working capital is available to meet operating and capital obligations and to fund operating reserves to the targeted levels. Financial projections indicate that NUCorp will maintain adequate liquidity targets over the upcoming five-year period.

There were no bond issuances in 2021 or 2020.

Detail on NUCorp's debt balances and activity are included in Note 5 in the Notes to Financial Statements section of this report. The following chart illustrates detail for the outstanding debt as of June 30

Outstanding Debt (Dollars in millions)



RATINGS

In establishing a company's credit rating, bond ratings agencies take into account both operating characteristics and financial strength. Moody's Investors Service Inc. (Moody's) and Standard & Poor's Ratings Group (S&P) assigned ratings for the 2010 and 2014 (Series B) bond issues. The 2014 QECB (Series A) were privately issued and did not require bond ratings. NUCorp's credit ratings in effect on June 30, 2021 were as follows:

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

Bond reserves for the outstanding bonds are set in accordance with terms stated upon issuance. All reserves are fully funded.

DEBT SERVICE COVERAGE

Actual and budgeted capital expenditures for 2019 through 2022 included the following:

x City Campus:

- o Construction of a new mechanical maintenance shop due to the Boiler 6 project displacing the current maintenance shop.
- o Replacement of the utility plant fuel oil tank to comply with new EPA regulations.
- o Improvement to the steam tunnel infrastructure to increase safety, reliability and longevity of the steam distribution system.
- o Replacement of Boiler 6 which was installed in 1969 and has reached the end of its useful life. A new boiler is required to meet campus demand while maintaining adequate steam production redundancy.
- o Repair and upgrade of Chiller 4 to improve efficiency, performance, reliability and lifespan of this unit. It also adds redundancy to the chilled water production system for City Campus.

x East Campus:

- o Installation of new sensors, actuators and PLC controls on steam equipment at the East campus utility plant will lead to full au0 Tc 06()3.67(tion)nd Pisplath wf tteam d]TJ 10-1.

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Nebraska Utility Corporation
(A Component Unit of the

Nebraska Utility Corporation
(A Component Unit of the University of Nebraska)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

Nebraska Utility Corporation
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Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Received from sales to customers and users	\$ 29,651,974	\$ 26,164,449
Paid to suppliers for goods and services	(19,447,660)	(19,464,599)
	<u>10,204,314</u>	<u>6,699,850</u>
Net cash flow provided by operating activities		
Capital and Related Financing Activities		
Capital expenditures for utility plant	(6,726,512)	(2,140,803)
Principal payments on long-term debt	(1,515,000)	(1,440,000)
Interest payments on long-term debt	(823,138)	(737,675)
Interest rate subsidy – QECCB	387,875	387,052
	<u>(8,676,775)</u>	<u>(3,931,426)</u>
Net cash flows used in capital and related financing activities		
Investing Activities		
Net purchases of investments	(23,609)	(4,969,152)
Interest received	124,473	337,025
	<u>100,864</u>	<u>(4,632,127)</u>
Net cash flows provided by (used in) investing activities		
Net Change in Cash and Cash Equivalents	1,628,403	(1,863,703)
Cash and Cash Equivalents - Beginning of Year	<u>4,216,451</u>	<u>6,080,154</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,844,854</u>	<u>\$ 4,216,451</u>

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Nebraska Utility Corporation
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Statements of Cash Flows – Continued
Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 5,689,939	\$ 6,464,483
Noncash items included in operating income		
Depreciation	3,241,039	2,977,101
Changes in operating assets and liabilities		
Accounts receivable	2,344,270	(2,318,036)
Inventories	(80,303)	(55,003)
Accounts payable	(990,631)	(368,695)
Net cash provided by operating activities	\$ 10,204,314	\$ 6,699,850
Supplemental Non-cash Activities		
Capital expenditures in accounts payable	\$ 1,651,940	\$ 1,412,986

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Notes to Financial Statements
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NUCorp capitalizes assets with an original cost of \$5,000 or more with asset life expectancy of more than one year. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred. Capital assets in service are depreciated using the straight-line method over a five to twenty-five-year period.

Upon the formation of NUCorp, the existing energy assets of UNL continue to be maintained and operated by UNL staff. NUCorp reimburses UNL for operation costs. Capital investments financed with bond proceeds and operating revenues are accounted for by NUCorp.

Net Position Classification

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

Net investment in capital assets

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Charges for Services

Revenues are based on rates authorized by the Board of Directors. New rates are authorized annually based on the approved budget. Rate changes can occur more frequently with notice to the customer. Revenues are recognized and billed on a monthly basis as earned.

Income Taxes

NUCorp is a public benefit corporation established under the Nebraska Nonprofit Corporation Act and is exempt from federal and state income taxes.

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation. The reclassifications had no effect on the changes in the net position.

Note 2: Deposits and Investments

Deposits

State statutes require banks either to give a bond or pledge government securities (types of which are specifically identified in the statutes) to NUCorp in the amount of all deposits. The statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the \$250,000 FDIC insured limits are covered by collateral held in a pledge account for NUCorp.

Investments

NUCorp may invest in U.S. Government securities and agencies, federal instrumentalities of the United States, repurchase agreements, corporate issues, money market mutual funds, interest bearing time deposits or savings accounts, state and/or local government taxable and/or tax-exempt debt and other fixed term investments as designated in the NUCorp investment policy.

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NUCorp had the following investments as of June 30:

June 30, 2021	Carrying Value	Maturities in Years		Credit Ratings
		Less Than 1	1 - 5	Moody's / S&P
Money market mutual funds	\$ 1,741,167	\$ 1,741,167	\$ -	Aaa-mf / AAAM
U.S. agency obligations	5,843,301	5,398,583	444,718	Aaa / AA+
U.S. Treasury securities	13,629,159	13,629,159	-	Aaa / AA+
	<u>\$ 21,213,627</u>	<u>\$ 20,768,909</u>	<u>\$ 444,718</u>	

June 30, 2020	Carrying Value	Maturities in Years		Credit Ratings
		Less Than 1	1 - 5	Moody's / S&P
Money market mutual funds	\$ 2,298,486	\$ 2,298,486	\$ -	Aaa-mf / AAAM
U.S. agency obligations	13,929,133	8,483,942	5,445,191	Aaa / AA+
U.S. Treasury securities	2,901,397	2,901,397	-	Aaa / AA+
	<u>\$ 19,129,016</u>	<u>\$ 13,683,825</u>	<u>\$ 5,445,191</u>	

Interest rate risk: \$9.00, 10.166mn, 2.1f, 0.02t, 98.16.86, 262.74Tm, -0.98, 16Mf, 10.98, 0

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Concentration of credit risk - Concentration of credit risk is the risk associated with the amount of investments NUCorp has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. NUCorp's investment policy places the following limits on the amount that may be invested in any one type of investment and/or issuer.

Investment Type	Portfolio Composition	Limits of Individual Issuers	Maturity Limitations
U.S. Government securities	100%	None	10 years
U.S. Government agencies	100%	None	10 years
Federal instrumentalities	100%	None	10 years

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Summary of Carrying Values

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

	<u>2021</u>	<u>2020</u>
Deposits	\$ 1,405,459	\$ 1,925,676
Investments	21,213,627	19,129,016
	<u>\$ 22,619,086</u>	<u>\$ 21,054,692</u>
	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents		
Operating funds	\$ 3,912,629	\$ 3,931,531
Restricted cash and investments		
Bond principal and interest funds	2,329,963	1,847,838
Noncurrent assets		
Cash and investments - construction funds	11,129,661	10,264,367
Restricted cash and investments		
Bond reserve funds	1,075,746	1,073,103
Bond principal and interest funds	4,171,087	3,937,853
	<u>\$ 22,619,086</u>	<u>\$ 21,054,692</u>

Note 3: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2021 and 2020:

June 30, 2021	Level 1	Level 2	Level 3	Total
U.S. Agency obligations	\$ -	\$ 5,843,301	\$ -	\$ 5,843,301
U.S. Treasury securities	-	13,629,159	-	13,629,159

Note 4: Capital Assets

Capital assets balances as of June 30 and activity for the fiscal years ended June 30 were as follows:

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

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

	July 1, 2020	Increase	Decrease	June 30, 2021	Due Within One Year
Revenue bonds	\$ 9,050,000	\$ -	\$(1,515,000)	\$ 7,535,000	\$ 2,035,000
Revenue bonds (direct placement)	6,500,000	-	-	6,500,000	-
Total	<u>\$ 15,500,000</u>	<u>\$ -</u>	<u>\$(1,515,000)</u>	<u>\$14,035,000</u>	<u>\$ 2,035,000</u>
	July 1, 2019	Increase	Decrease	June 30, 2020	Due Within One Year
Revenue bonds	\$ 10,490,000	\$ -	\$(1,440,000)		

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Note 7: Risk Management

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