

Municipal Energy Agency of Nebraska

Independent Auditor's Report and Financial Statements

March 31, 2018 and 2017

MEAN

MUNICIPAL ENERGY AGENCY OF NEBRASKA

Municipal Energy Agency of Nebraska
March 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Municipal Energy Agency of Nebraska
Lincoln, Nebraska

We have audited the accompanying financial statements of Municipal Energy Agency of Nebraska as of and for the years ended March 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Municipal Energy Agency of Nebraska's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Energy Agency of Nebraska as of March 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Lincoln, Nebraska
June 12, 2018

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, 2018, 2017 and 2016. 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, 2018, 2017 and 2016.

Condensed Balance Sheets and Financial Highlights

	March 31,			Change	
	2018	2017	2016	From 2017 to 2018	From 2016 to 2017
Assets and Deferred					
Outflows of Resources					
Current assets	\$ 63,573,147	\$ 64,946,153	\$ 62,257,796	\$ (1,373,006)	\$ 2,688,357
Restricted and long-term investments	21,626,002	21,949,343	22,922,995	(323,341)	(973,652)
Capital assets and productive capacity	123,618,871	126,824,782	133,147,608	(3,205,911)	(6,322,826)
Other noncurrent assets	42,218,348	44,110,921	46,154,721	(1,892,573)	(2,043,800)
Deferred outflows of resources	9,031,170	9,517,558	2,703,942	(486,388)	6,813,616
Total assets and deferred outflows of resources	\$ 260,067,538	\$ 267,348,757	\$ 267,187,062	\$ (7,281,219)	\$ 161,695
Liabilities, Deferred					
Inflows of Resources					
and Net Position					
Current liabilities	\$ 20,504,313	\$ 21,455,240	\$ 20,406,413	\$ (950,927)	\$ 1,048,827
Long-term debt, net	167,521,654	174,433,450	174,069,073	(6,911,796)	364,377
Deferred inflows of resources	22,207,973	23,517,973	24,947,378	(1,310,000)	(1,429,405)
Net position					
Net investment in capital assets	7,180,715	5,078,979	6,892,475	2,101,736	(1,813,496)
Restricted for debt service	6,258,906	6,258,906	6,169,409	-	89,497
Unrestricted	36,393,977	36,604,209	34,702,314	(210,232)	1,901,895
Total net position	49,833,598	47,942,094	47,764,198	1,891,504	177,896
Total liabilities, deferred inflows of resources and net position	\$ 260,067,538	\$ 267,348,757	\$ 267,187,062	\$ (7,281,219)	\$ 161,695

Assets and Deferred Outflows of Resources

Current assets decreased in 2018 primarily due to decreased accounts receivable and productive capacity operating assets and offset in part by increased cash and cash equivalents and short-term investments. Current assets increased in 2017 primarily due to increased accounts receivable and productive capacity operating assets and offset in part by decreased cash and cash equivalents.

During 2017, restricted investments declined due to lower debt service reserve requirements after issuance of MEAN's Power Supply System Refunding Revenue Bonds 2016 Series A ("2016A Bonds"). Long-term investments decreased in 2018 and 2017. 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 2018 and 2017 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, furniture, and equipment.

The decrease in other noncurrent assets in 2018 and 2017 is due to decreases in contracts receivable and recovery of certain costs previously deferred as permitted under Governmental Accounting Standards Board (GASB) Codification Section Re10, *Regulated Operations* ("Regulated Operations").

Deferred outflows of resources consist of deferred costs of refunded debt resulting from refunding transactions. The decrease in 2018 resulted from annual amortization. The increase in 2017 relates to the impact of the 2016A Bonds refunding transaction.

Liabilities and Deferred Inflows of Resources

Current liabilities decreased in 2018 and increased in 2017 due to timing of when invoices were received and paid.

Net long-term debt declined in 2018 as principal payments were paid and no bond financing transactions occurred. Net long-term debt increased in 2017 as a result of the increase in premium on long-term debt as a result of the 2016A Bonds refunding transaction offset in part by principal payments and decrease in long-term debt as a result of the 2016A Bonds refunding transaction.

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 2018, MEAN did not issue any debt and made scheduled principal payments of \$5,715,000. In 2017, MEAN issued the 2016A Bonds in the amount of \$68,905,000. Funds were used to advance refund and defease MEAN's outstanding Power Supply System Refunding Revenue Bonds, 2009 Series A, maturing on or after April 1, 2020 and pay certain costs of issuing the 2016A Bonds. MEAN also made scheduled principal payments of \$5,530,000 in 2017.

Debt Ratings and Debt Service Coverage

During the 2016A Bonds issuance process, Standard and Poor's (S&P) assigned an A/stable rating, to the 2016A Bonds and affirmed the A/stable rating on MEAN's other outstanding debt. Fitch Ratings assigned an A/stable rating to the 2016A Bonds and affirmed the A/stable rating on MEAN's other outstanding debt. On April 19, 2018, 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 1.21, 1.22 and 1.22 for 2018, 2017, and 2016, respectively.

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

	March 31,			Change	
	2018	2017	2016	From 2017 to 2018	From 2016 to 2017
Sales volumes (MWh's)	2,126,000	2,059,000	2,107,000	67,000	(48,000)
Electric energy sales and other operating revenues	\$ 123,894,089	\$ 125,566,199	\$ 128,056,506	\$ (1,672,110)	\$ (2,490,307)
Transfer from (provision for) rate stabilization	1,310,000	1,429,405	(2,977,568)	(119,405)	4,406,973
Total operating revenues	125,204,089	126,995,604	125,078,938	(1,791,515)	1,916,666
Electric energy costs	101,107,026	101,780,198	101,140,683	(673,172)	639,515
Other operating expenses	15,286,059	16,615,130	16,984,098	(1,329,071)	(368,968)
Total operating expenses	116,393,085	118,395,328	118,124,781	(2,002,243)	270,547
Operating income	8,811,004	8,600,276	6,954,157	210,728	1,646,119
Net nonoperating expenses	(6,919,500)	(8,422,380)	(6,314,218)	1,502,880	(2,108,162)
Increase in net position	\$ 1,891,504	\$ 177,896	\$ 639,939	\$ 1,713,608	\$ (462,043)

Sales Volumes and Operating Revenues

MWh's delivered in 2018 increased 3% compared to 2017. MWh's delivered in 2017 decreased 2% compared to 2016.

MWh's delivered to MEAN's long-term total requirements participants increased in 2018 and 2017. Fluctuations are primarily due to the impact of weather conditions. Electric energy sales revenues from MEAN's long-term total requirements participants decreased in 2018 and 2017 as a result of changes to rates and charges.

In 2018, MWh's delivered to MEAN's limited-term total requirements participants increased. MWh's delivered to MEAN's limited-term total requirements participants decreased in 2017. Fluctuations in MWh's delivered are due primarily to changes in contract terms along with the impact of weather conditions. No limited-term total requirements contracts expired in 2018 but did in 2017. No limited-term total requirements contracts were added during 2018; however, two contracts were extended. Three limited-term total requirements participants were added during 2017. Electric energy sales revenues from MEAN's limited-term total requirements participants increased in 2018 as a result of the increase in MWh's delivered and changes to rates and charges. In 2017, the MWh's required by the new contracts were not enough to offset the MWh's of the expired contracts, resulting in a decrease in electric energy sales revenues from MEAN's limited-term total requirements participants.

Both MWh's sold and the average selling price per MWh for interchange sales increased in 2018 resulting in an overall increase in revenues from interchange sales. Although the average selling price per MWh increased in 2017, MWh's sold decreased resulting in an overall decrease in revenues from interchange sales.

For 2018 and 2017, the Board of Directors authorized a transfer from rate stabilization into operating revenues of \$1,310,000 and \$1,260,000, 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 2017, the Board of Directors also authorized a transfer from rate stabilization into operating revenues of \$169,405. These authorizations resulted in a total transfer from rate stabilization in 2018 of \$1,310,000 and in 2017 of \$1,429,405. 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, fluctuations in the cost per MWh of purchased and produced power and impacts of changes in transmission costs. Decreased electric energy costs in 2018 resulted primarily from decreases in the cost per MWh of purchased and produced power. Increased electric energy costs in 2017 resulted primarily from increases in the cost per MWh of purchased and produced power.

General Trends and Significant Events

Southwest Power Pool

MEAN participates in Southwest Power Pool's (SPP) Integrated Marketplace (IM). As a member of the SPP Regional Transmission Organization, MEAN works with other SPP members to identify ways to improve market operations and overall organizational effectiveness.

Renewable Resources

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.

MEAN's Board of Directors voted in January 2017 to decommission MEAN's wind farm located near Kimball, Nebraska that included 10.5 MW of wind capacity. The costs incurred for the Kimball Wind Farm were fully amortized as of March 31, 2017. The wind farm was fully decommissioned during 2018. Decommissioning services for MEAN's wind farm were included as part of a negotiated arrangement between MEAN and the developer of a new 30 MW wind-generated facility located near Kimball, Nebraska. No separate charges were incurred for decommissioning of MEAN's wind farm. MEAN entered into a power purchase agreement for the purchase of the energy, capacity and environmental attributes produced by the new 30 MW wind-generated facility beginning on the commercial operation date. Commercial operation is expected to occur in July 2018.

MEAN has also contracted for the purchase of 37 MW of wind capacity from other wind energy producers in the region. In addition to the wind capacity, MEAN has contracted for 4.8 MW from the Waste Management Des Moines Landfill Gas Facility. 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.

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.

Clean Power Plan and New Source Performance Standard

The Environmental Protection Agency (EPA) issued a final rule regarding New Source Performance Standards on October 23, 2015 and the final Clean Power Plan (CPP) on August 3, 2015. The regulations relate to greenhouse gas emission guidelines for new and existing power plants.

On February 9, 2016, the U.S. Supreme Court granted stay motions filed by states and industry that sought to put implementation of the EPA's CPP on hold pending judicial review. Executive Order 13783 on March 28, 2017, required the EPA to review the CPP and other regulations. On October 16, 2017, the EPA proposed a rule to repeal the CPP for existing stationary sources. The EPA issued an advanced notice of proposed rulemaking on December 28, 2017 for replacing the CPP with a limited scope.

Executive Order 13783 also required the EPA to review the final rule regarding New Source Performance Standards. As of March 30, 2017, all pending litigation was held in abeyance by the D.C. Circuit. As of May 2018, there has been no update to this status.

Clean Air Act

Legislation was enacted in 1990 that substantially revised the Clean Air Act (the "1990 Amendments"). The 1990 Amendments seek to improve the ambient air quality throughout the United States. A main objective of the 1990 Amendments is the reduction of sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x") emissions caused by electric utility power plants, particularly those fueled by coal. Under the 1990 Amendments, SO₂ emission reduction was to be achieved in two phases. Phase I addressed specific generating units named in the 1990 Amendments. MEAN's generating resources meet the emissions requirements under Phase I. Phase II of the Act was effective January 1, 2000. Based on current projections MEAN has sufficient allowances for SO₂ emissions to cover the electric power needs of its participants through 2018. Allowances for future years will be purchased to provide for projected requirements. Currently, all of MEAN's coal-fired generation resources meet Phase II NO_x compliance requirements.

Cross-State Air Pollution Rule

Phase 2 pollution limits (referred to as a "budget") under the EPA rule referred to as the Cross-State Air Pollution Rule ("CSAPR") became effective in 2017. Under CSAPR, facilities must provide allowances for emission of each ton of SO₂ and NO_x. Nebraska is subject to CSAPR annual SO₂ and NO_x allowance programs. Other states, including Iowa, are also subject to CSAPR Ozone Season (May to September) NO_x allowance programs. Facilities are allocated some CSAPR allowances by the EPA. A market-based system exists to obtain additional allowances. Based on the current CSAPR allocation methodology and current generation projections, MEAN expects to have sufficient allowances to cover MEAN's share of emissions from WSEC 4 and Wygen I, but may be required to obtain additional allowances from the CSAPR allowance market in the future. PPGA purchased an estimated ten years' worth of SO₂ credits during the construction of WEC 2 which are projected to cover WEC 2's requirements through 2019.

Mercury and Air Toxics Standards

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 comply 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.

Regional Haze Rule

Under the Regional Haze Rule each state is required to submit a State Implementation Plan (SIP) to improve visibility and air quality in Class I areas (national parks and wilderness areas) 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 Rule. 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 Rule. Wyoming submitted its SIP to the EPA in 2011, which included plans for LRS. In January 2014, the EPA issued its

final ruling rejecting this SIP and issued a Federal Implementation Plan (FIP) requiring installation of Selective Catalytic Reduction (SCR) NO_x removal technology for three coal plants in Wyoming, including LRS. Legal negotiations continued through 2016 until a tentative agreement was reached on December 30, 2016 (subject to an issuance of a final FIP by the EPA). LRS agreed to install non-SCR technology on two units and SCR technology on one unit, rather than SCR technology on all units. This will result in a significant cost reduction over installing all SCR technology. Wygen I is not currently subject to CSAPR, however, Wygen I is well positioned to meet any requirements relating to CSAPR's implementation.

Water Quality

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.

The future of the Clean Water Rule, issued under the authority of the Clean Water Act, is facing uncertainty. At the beginning of 2018, the Clean Water Rule was suspended by the current administration for two years. The EPA stated at that time its intention to implement its own Clean Water Rule replacement in an attempt to clarify the definition of the term "waters of the United States," which has major implications on the enforcement of environmental water pollution regulations.

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 2018 and 2017, there was a transfer from the rate stabilization account of \$(1,310,000) and \$(1,429,405), respectively.

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 nonmember participants and creditors with a general overview of MEAN's financial status for the fiscal years 2018, 2017 and 2016. 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, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 39,668,625	\$ 36,076,178
Short-term investments	8,981,058	7,904,832
Accounts receivable	10,635,288	14,900,452
Prepaid expenses and other	398,955	501,172
Productive capacity operating assets	3,889,221	5,563,519
Total current assets	63,573,147	64,946,153
Noncurrent Assets		
Long-term investments	8,649,810	8,972,624
Restricted investments	12,976,192	12,976,719
Contracts receivable	920,383	1,925,195
Productive capacity, net	118,163,405	121,228,234
Capital assets, net	5,455,466	5,596,548
Costs recoverable from future billings	41,297,965	42,185,726
Total noncurrent assets	187,463,221	192,885,046
Deferred Outflows of Resources		
Deferred cost of refunded debt	9,031,170	9,517,558
Total assets and deferred outflows of resources	\$ 260,067,538	\$ 267,348,757
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 5,945,000	\$ 5,715,000
Accounts payable and accrued expenses	11,055,453	12,307,041
Accrued interest payable	3,503,860	3,433,199
Total current liabilities	20,504,313	21,455,240
Long-term Debt, Net	167,521,654	174,433,450
Deferred Inflows of Resources		
Deferred revenue - rate stabilization	22,207,973	23,517,973
Net Position		
Net investment in capital assets	7,180,715	5,078,979
Restricted for debt service	6,258,906	6,258,906
Unrestricted	36,393,977	36,604,209
Total net position	49,833,598	47,942,094
Total liabilities, deferred inflows of resources and net position	\$ 260,067,538	\$ 267,348,757

Municipal Energy Agency of Nebraska
Statements of Revenues, Expenses and
Changes in Net Position
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Electric energy sales	\$ 123,283,007	\$ 124,542,220
Transfer from rate stabilization	1,310,000	1,429,405
Other	<u>611,082</u>	<u>1,023,979</u>
Total operating revenues	<u>125,204,089</u>	<u>126,995,604</u>
Operating Expenses		
Electric energy costs	101,107,026	101,780,198
Administrative and general	8,965,435	8,948,508
Depreciation and amortization	<u>6,320,624</u>	<u>7,666,622</u>
Total operating expenses	<u>116,393,085</u>	<u>118,395,328</u>
Operating Income	<u>8,811,004</u>	<u>8,600,276</u>
Nonoperating Revenues (Expenses)		
Net costs to be recovered in future periods	(887,761)	(906,503)
Investment return	492,668	256,453
Interest expense	(6,527,311)	(7,320,730)
Bond issuance costs	-	(583,195)
Other	<u>2,904</u>	<u>131,595</u>
Net nonoperating expenses	<u>(6,919,500)</u>	<u>(8,422,380)</u>
Increase in Net Position	1,891,504	177,896
Net Position, Beginning of Year	<u>47,942,094</u>	<u>47,764,198</u>
Net Position, End of Year	<u>\$ 49,833,598</u>	<u>\$ 47,942,094</u>

Municipal Energy Agency of Nebraska
Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Cash received from participants and customers	\$ 150,097,300	\$ 143,745,063
Cash paid to suppliers	(124,085,069)	(124,271,435)
Cash paid to coalition members	<u>(6,395,700)</u>	<u>(6,005,768)</u>
Net cash provided by operating activities	<u>19,616,531</u>	<u>13,467,860</u>
Noncapital Financing Activities, Other Nonoperating Receipts	<u>-</u>	<u>130,223</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(5,715,000)	(5,530,000)
Proceeds from issuance of long-term debt	-	76,881,046
Transfer to bond refunding agent	-	(78,038,583)
Additions of productive capacity	(2,895,541)	(1,248,958)
Proceeds from sale of capital assets	2,904	1,372
Purchase of capital assets	(219,172)	(94,838)
Interest paid	<u>(6,937,058)</u>	<u>(8,187,179)</u>
Net cash used in capital and related financing activities	<u>(15,763,867)</u>	<u>(16,217,140)</u>
Investing Activities		
Interest received on investments	675,631	429,353
Purchases of investments	(19,764,681)	(22,002,170)
Proceeds from sales and maturities of investments	<u>18,828,833</u>	<u>22,400,045</u>
Net cash provided by (used in) investing activities	<u>(260,217)</u>	<u>827,228</u>
Increase (Decrease) in Cash and Cash Equivalents	3,592,447	(1,791,829)
Cash and Cash Equivalents, Beginning of Year	<u>36,076,178</u>	<u>37,868,007</u>
Cash and Cash Equivalents, End of Year	<u>\$ 39,668,625</u>	<u>\$ 36,076,178</u>

Municipal Energy Agency of Nebraska
Statements of Cash Flows - Continued
Years Ended March 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 8,811,004	\$ 8,600,276
Depreciation and amortization	6,320,624	7,666,622
Transfer from rate stabilization	(1,310,000)	(1,429,405)
Changes in operating assets and liabilities		
Accounts receivable	4,487,542	(2,138,464)
Productive capacity operating assets	1,674,298	(1,867,336)
Prepaid expenses and other	102,217	(71,509)
Contracts receivable	1,004,812	1,137,298
Accounts payable and accrued expenses	(1,473,966)	1,570,378
Net Cash Provided by Operating Activities	\$ 19,616,531	\$ 13,467,860

Municipal Energy Agency of Nebraska

Notes to Financial Statements

March 31, 2018 and 2017

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 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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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, 2018 and 2017, 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 are carried at cost, which approximates fair market value. Investments in U.S. agency obligations and negotiable certificates of deposit 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, 2018 and 2017.

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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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.
- 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.
- Ownership of a 10.5 MW wind project consisting of seven turbines located near Kimball, Nebraska. Costs incurred were fully amortized as of March 31, 2017. The wind project was decommissioned in 2018 resulting in retirement of the wind production productive capacity and related accumulated depreciation.

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.

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*.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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

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.

The rate stabilization account includes electric energy sales revenue of approximately \$6.3 million from a regulatory independent transmission system operator and transmission adjustment (RITA) established in January 2013 by the Board of Directors and Management Committee to recover transmission costs incurred by MEAN in 2013. The outstanding balance owed by participants to MEAN under the RITA is included in contracts receivable and is being collected monthly through March 2019.

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 began April 2014 in accordance with the RITA payment provisions. In 2018 and 2017, \$1,310,000 and \$1,260,000, respectively, of RITA funds were transferred into operating revenues from the rate stabilization account.

In 2017, the Board of Directors also authorized the transfer from rate stabilization of \$169,405 of rate stabilization account funds into operating revenues. The total amount transferred from the rate stabilization account into operating revenues in 2018 and 2017 was \$(1,310,000) and \$(1,429,405), respectively.

As of March 31, 2018 and 2017, \$22,207,973 and \$23,517,973, respectively, are shown as deferred revenue - rate stabilization on the accompanying balance sheets.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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

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 productive capacity assets and 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.

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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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

Rates and Charges

MEAN annually determines its wholesale electric service rates and charges to recover costs of providing power supply services. Rates and charges are to be nondiscriminatory, fair and reasonable (based primarily on the cost of providing the electric power and energy or the service to which the rate or charge relates). 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.

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, 2018, MEAN's deposits exceeded FDIC coverage and collateral held by approximately \$32,000. At March 31, 2017, 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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 2: Deposits, Investments and Investment Return – Continued

At March 31, 2018 and 2017, MEAN had the following investments, maturities and credit ratings:

	Carrying Value	Maturities in Years		Credit Rating
		Less Than 1	1 - 5	Moody's/ S&P
March 31, 2018				
Money market mutual fund				
- U.S. government obligations	\$ 32,872,296	\$ 32,872,296	\$ -	Aaa-mf/AAAm
U.S. agency obligations	13,365,606	4,114,545	9,251,061	Aaa/AA+
Negotiable certificates of deposit	17,142,166	8,981,058	8,161,108	Not Rated
	<u>\$ 63,380,068</u>	<u>\$ 45,967,899</u>	<u>\$ 17,412,169</u>	
March 31, 2017				
Money market mutual fund				
- U.S. government obligations	\$ 9,258,861	\$ 9,258,861	\$ -	Aaa-mf/AAAm
U.S. agency obligations	13,627,833	1,093,974	12,533,859	Aaa/AA+
Negotiable certificates of deposit	16,135,007	7,654,843	8,480,164	Not Rated
	<u>\$ 39,021,701</u>	<u>\$ 18,007,678</u>	<u>\$ 21,014,023</u>	

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-

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 2: Deposits, Investments and Investment Return – Continued

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, 2018 and 2017, certain investments in U.S. agency obligations and negotiable certificates of deposit are held in safekeeping in MEAN's name, and in a broker account with MEAN's primary financial institution. Additionally, any investments held in trust at March 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017 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.

Concentrations greater than 5% at March 31, 2018 and 2017, are shown below:

	<u>2018</u>	<u>2017</u>
U.S. sponsored agency obligations		
Federal Home Loan Bank	5.79%	8.20%
Federal Farm Credit Bank	9.01%	14.57%
Federal National Mortgage Association	4.67%	7.62%

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 2: Deposits, Investments and Investment Return – Continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Carrying Value		
Deposits	\$ 4,235,223	\$ 26,908,652
Cash held with Trustee	2,660,394	-
Investments	<u>63,380,068</u>	<u>39,021,701</u>
	<u>\$ 70,275,685</u>	<u>\$ 65,930,353</u>

Included in the following balance sheet captions:

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents		
Operating	\$ 25,170,986	\$ 22,062,376
Escrow	1,381,304	170,329
Rate stabilization fund	3,610,985	4,675,947
Debt service funds	<u>9,505,350</u>	<u>9,167,526</u>
Total	<u>39,668,625</u>	<u>36,076,178</u>
Short-term investments - rate stabilization fund	<u>8,981,058</u>	<u>7,904,832</u>
Noncurrent Assets		
Long-term investments - rate stabilization fund	<u>8,649,810</u>	<u>8,972,624</u>
Restricted long-term investments		
Debt reserve funds	<u>12,976,192</u>	<u>12,976,719</u>
	<u>\$ 70,275,685</u>	<u>\$ 65,930,353</u>

Investment Return

Investment return for the years ended March 31, 2018 and 2017 consisted of interest income and the net change in fair value of investments carried at fair value of \$492,668 and \$256,453, respectively.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 2: Deposits, Investments and Investment Return – Continued

Disclosures About Fair Value of Assets and Liabilities

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.

Money market mutual funds are carried at cost, and thus are not included within the fair value hierarchy. MEAN's investments in U.S. agency obligations and negotiable certificates of deposit are measured at fair value on a recurring basis, and are classified within Level 2 of the fair value hierarchy at March 31, 2018 and 2017.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 3: Productive Capacity

Productive capacity at March 31, 2018 and 2017 consisted of the following:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
March 31, 2018					
Steam production	\$ 187,768,389	\$ 2,542,196	\$ 335,947	\$ -	\$ 190,646,532
Wind production	13,710,067	-	-	(13,710,067)	-
Transmission	10,476,513	353,345	(335,947)	-	10,493,911
	<u>211,954,969</u>	<u>2,895,541</u>	<u>-</u>	<u>(13,710,067)</u>	<u>201,140,443</u>
Less accumulated depreciation					
Steam production	(75,209,286)	(5,761,608)	(67,813)	-	(81,038,707)
Wind production	(13,710,067)	-	-	13,710,067	-
Transmission	(1,807,382)	(198,762)	67,813	-	(1,938,331)
	<u>(90,726,735)</u>	<u>(5,960,370)</u>	<u>-</u>	<u>13,710,067</u>	<u>(82,977,038)</u>
Net productive capacity	<u>\$ 121,228,234</u>	<u>\$ (3,064,829)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,163,405</u>
March 31, 2017					
Steam production	\$ 186,258,392	\$ 1,204,193	\$ 305,804	\$ -	\$ 187,768,389
Wind production	13,710,067	-	-	-	13,710,067
Transmission	10,737,552	44,765	(305,804)	-	10,476,513
	<u>210,706,011</u>	<u>1,248,958</u>	<u>-</u>	<u>-</u>	<u>211,954,969</u>
Less accumulated depreciation					
Steam production	(69,442,670)	(5,722,680)	(43,936)	-	(75,209,286)
Wind production	(12,340,429)	(1,369,638)	-	-	(13,710,067)
Transmission	(1,660,939)	(190,379)	43,936	-	(1,807,382)
	<u>(83,444,038)</u>	<u>(7,282,697)</u>	<u>-</u>	<u>-</u>	<u>(90,726,735)</u>
Net productive capacity	<u>\$ 127,261,973</u>	<u>\$ (6,033,739)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,228,234</u>

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 4: Capital Assets

Capital assets at March 31, 2018 and 2017 consisted of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
March 31, 2018				
Land	\$ 489,000	\$ -	\$ -	\$ 489,000
Buildings and improvements	5,147,328	-	-	5,147,328
Furniture, equipment and transportation equipment	2,109,886	219,172	(238,780)	2,090,278
	<u>7,746,214</u>	<u>219,172</u>	<u>(238,780)</u>	<u>7,726,606</u>
Less accumulated depreciation	<u>(2,149,666)</u>	<u>(360,254)</u>	<u>238,780</u>	<u>(2,271,140)</u>
Net capital assets	<u>\$ 5,596,548</u>	<u>\$ (141,082)</u>	<u>\$ -</u>	<u>\$ 5,455,466</u>
March 31, 2017				
Land	\$ 489,000	\$ -	\$ -	\$ 489,000
Buildings and improvements	5,147,328	-	-	5,147,328
Furniture, equipment and transportation equipment	2,016,237	94,838	(1,189)	2,109,886
	<u>7,652,565</u>	<u>94,838</u>	<u>(1,189)</u>	<u>7,746,214</u>
Less accumulated depreciation	<u>(1,766,930)</u>	<u>(383,925)</u>	<u>1,189</u>	<u>(2,149,666)</u>
Net capital assets	<u>\$ 5,885,635</u>	<u>\$ (289,087)</u>	<u>\$ -</u>	<u>\$ 5,596,548</u>

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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. 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 2018 or 2017.

Note 6: Credit Facilities

Line of Credit

MEAN has a \$20,000,000 revolving line of credit which renewed May 31, 2017 for a three-year term through May 29, 2020. During the years ended March 31, 2018 and 2017, no funds were advanced against the line. Interest varies at one percent (1%) 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, 2018. The \$500,000 standby letter of credit was automatically renewed in April 2018, under an automatic annual renewal clause, to April 7, 2019. The \$4,000,000 standby letter of credit, expiring December 31, 2018, 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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Agency for the year ended March 31, 2018:

Type of Debt	2018				
	April 1 2017	Additions	Reductions	March 31 2018	Due Within One Year
3.000% - 5.000% Power Supply System Refunding Revenue Bonds, Series 2016A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1, from 2020 through 2038. Term principal payment due April 1, 2039. Mandatory sinking fund payments due annually April 1, 2036 through 2039. Redeemable at par on or after October 1, 2026.	\$ 68,905,000	\$ -	\$ -	\$ 68,905,000	\$ -
3.750% - 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.	30,015,000	-	1,260,000	28,755,000	1,310,000
1.670% - 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.	5,835,000	-	975,000	4,860,000	985,000
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.	55,465,000	-	3,480,000	51,985,000	2,410,000
5.000% 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, 2018 and 2019.	2,550,000	-	-	2,550,000	1,240,000
Total long-term debt	162,770,000	-	5,715,000	157,055,000	5,945,000
Premium on long-term debt	17,378,450	-	966,796	16,411,654	-
Long-term debt, net	\$ 180,148,450	\$ -	\$ 6,681,796	\$ 173,466,654	\$ 5,945,000

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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, 2017:

Type of Debt	2017			March 31 2017	Due Within One Year
	April 1 2016	Additions	Reductions		
3.000% - 5.000% Power Supply System Refunding Revenue Bonds, Series 2016A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1, from 2020 through 2038. Term principal payment due April 1, 2039. Mandatory sinking fund payments due annually April 1, 2036 through 2039. Redeemable at par on or after October 1, 2026.	\$ -	\$ 68,905,000	\$ -	\$ 68,905,000	\$ -
3.750% - 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.	31,240,000	-	1,225,000	30,015,000	1,260,000
1.470% - 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	-	960,000	5,835,000	975,000
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.	58,620,000	-	3,155,000	55,465,000	3,480,000
5.000% 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, 2018 and 2019. Partially refunded during 2017.	72,425,000	-	69,875,000	2,550,000	-
Total long-term debt	169,080,000	68,905,000	75,215,000	162,770,000	5,715,000
Premium on long-term debt	10,519,073	7,976,046	1,116,668	17,378,450	-
Long-term debt, net	<u>\$ 179,599,073</u>	<u>\$ 76,881,046</u>	<u>\$ 76,331,668</u>	<u>\$ 180,148,450</u>	<u>\$ 5,715,000</u>

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2018 and 2017

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, 2018 are as follows:

Year Ending March 31,	Principal	Interest	Total
2019	\$ 5,945,000	\$ 6,875,495	\$ 12,820,495
2020	6,215,000	6,601,015	12,816,015
2021	5,090,000	6,343,098	11,433,098
2022	5,330,000	6,104,372	11,434,372
2023	5,575,000	5,850,073	11,425,073
2024-2028	29,575,000	24,852,313	54,427,313
2029-2033	33,210,000	17,224,863	50,434,863
2034-2038	45,095,000	8,429,256	53,524,256
2039-2040	21,020,000	705,300	21,725,300
	<u>\$ 157,055,000</u>	<u>\$ 82,985,785</u>	<u>\$ 240,040,785</u>

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, as defined in each applicable Bond Resolution, and certain other funds and amounts pursuant to each applicable Bond Resolution. The Revenues consist of all income from MEAN's Power Supply System.

Bond Refunding

On September 28, 2016, MEAN issued \$68,905,000 in Power Supply System Refunding Revenue Bonds, 2016 Series A with an average interest rate of 3.94 percent to advance refund \$69,685,000 of outstanding 2009 Series A bonds. The refunded bonds had an average interest rate of 5.34 percent. The net proceeds of approximately \$76,298,000 consist of the net original issue premium of approximately \$7,976,000, reduced by payment of approximately \$580,000 in underwriting fees and other issuance costs. Net proceeds of \$76,298,000 plus approximately \$1,157,000 of existing MEAN funds, including debt service reserve funds released by the transaction, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2009 Series A bonds refunded. The 2009 Series A bonds refunded will be called for redemption on April 1, 2019. As a result, \$69,685,000 of the outstanding 2009 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7.1 million. This difference, reported in the accompanying financial statements as a deferred cost of refunded debt, is being amortized and charged to operations through the fiscal year 2039 on a straight-line basis. MEAN completed the refunding to reduce its total debt service payments over the next 17 years by \$18.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$13.5 million.

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Note 8: Electric Energy Sales

Electric energy sales for the years ended March 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Long-term total requirements	\$ 103,466,783	\$ 107,264,789
Limited-term total requirements	11,162,001	10,850,675
Interchange sales	<u>8,654,223</u>	<u>6,426,756</u>
	<u>\$ 123,283,007</u>	<u>\$ 124,542,220</u>

As of March 31, 2018 and 2017, MEAN has sixty-nine participating municipal utilities. 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.

Total Requirements

As of March 31, 2018 and 2017, 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, 2018 and 2017, seven participants have entered into limited-term total requirements contracts. The limited-term total requirements contracts vary in length, but are generally up to ten years. There were no additions to or expirations of contracts during 2018; however, two participants extended their respective contracts for an additional five-year term. During 2017, three participants entered into limited-term total requirements contracts and one contract expired.

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 \$5,814,000 and \$6,327,000 during 2018 and 2017, respectively.

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Note 8: Electric Energy Sales – Continued

Service Power and Market Assistance

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 2018 and 2017. A service power participant may terminate participation by giving two years' written notice to MEAN.

MEAN provides scheduling services in Southwest Power Pool's (SPP) Integrated Marketplace (IM) for three of the service power participants. During 2018, one additional municipal utility entered into a market assistance agreement in SPP with MEAN. Under the scheduling service and market assistance agreements, MEAN is paid an administrative fee for the 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 and receive applicable payments for the municipalities participating in SPP IM and remit funds received to the municipalities and payments collected to SPP and other transmission providers, as applicable. 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 net amounts collected and received totaled approximately \$2,722,000 and \$2,114,000 during 2018 and 2017, respectively.

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 (MWh) 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Purchased power	\$ 75,523,861	\$ 77,089,886
Production	17,923,534	17,136,659
Transmission	<u>7,659,631</u>	<u>7,553,653</u>
	<u>\$ 101,107,026</u>	<u>\$ 101,780,198</u>

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

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 participants have committed total capacity and energy output of participant-owned generating units (approximately 133 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 participant committed facilities and energy output agreements are included in purchased power costs in the table of electric energy costs included in Note 9.

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 of electric energy costs included in Note 9.

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 2054. Various MEAN participants also have allocations through WAPA totaling approximately 109 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.

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

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 to 5 MW on May 1, 2016, decreased to 2 MW on May 1, 2017 and ends on April 30, 2018.

Agreement with Kimball Wind LLC

MEAN entered into a power purchase agreement with Kimball Wind LLC effective September 26, 2017 for the purchase of energy, capacity and environmental attributes produced by the 30 MW Kimball Wind Facility being constructed near Kimball, Nebraska. MEAN's purchase obligation begins on the commercial operation date and continues for an initial term of 20 years. Commercial operation is expected to occur in July 2018.

Agreements with Nebraska Public Power District (NPPD)

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

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 a total of 20 MW down to a total of 10 MW over the life of the contract.

Municipal Energy Agency of Nebraska
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Note 9: Electric Energy Costs and Power Supply Commitments - Continued

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 generated energy and vary from 3 to 10 MW's per year.

Market Activity

MEAN participates in MISO, SPP and WECC markets. MEAN incurs costs related to market purchases and receives generation revenues related to units dispatched into MISO and SPP. MEAN also incurs costs related to energy purchases in WECC. Auction revenue rights and transmission congestion rights in SPP and auction revenue rights and financial transmission rights in MISO may result in a net financial benefit or cost to MEAN. These financial instruments were primarily designed to allow firm transmission customers the opportunity to offset differences in market prices related to transmission congestion costs between resources and loads. The financial impact of all of these items are included in purchased power costs in the table of electric energy costs included in Note 9.

Production

Production costs consist of MEAN's costs incurred to operate and maintain the wind project at Kimball prior to decommissioning and MEAN's ownership share of costs incurred to operate and maintain LRS, WSEC 4 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.

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 \$13,541,000 and \$12,320,000 during 2018 and 2017, respectively.

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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, 2018 and 2017 is as follows:

	2018	2017
Due from NPGA	\$ 1,996	\$ 2,370
Due from ACE	2,564	2,987
Due from coalition members	\$ 4,560	\$ 5,357
Due to NMPP	\$ 627,068	\$ 404,690

MEAN incurred expenses of approximately \$6,930,000 and \$6,560,000 for administrative services provided by NMPP during 2018 and 2017, respectively.

MEAN supports the financial health and utility business management of MEAN's participating municipal utilities by paying a portion of the cost of computer software value support plan and cost of service studies purchased by qualifying MEAN participants from NMPP. During 2018 and 2017, MEAN paid NMPP, on behalf of MEAN's participants, approximately \$149,000 and \$151,000, respectively.

In 2018 and 2017, MEAN billed coalition members approximately \$105,000 and \$111,000, respectively, for the use of the operations and management facility, 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; and natural disasters. MEAN is named as one of the insureds on joint policies for commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. None of the claims exceeded this commercial coverage in any of the three preceding years.

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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. Future changes in environmental regulations could result in MEAN incurring significant costs for additional capital and operating expenditures, reduced operating levels or the complete shutdown of individual units not in compliance. However, due to the level of regulatory and legal uncertainty related to MEAN's facilities, it is impractical to quantify any specific financial impacts at this time.

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.