Nebraska Utility Corporation

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

June 30, 2022 and 2021

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audito

SIGNIFICANT EVENTS

Work continued on replacement of the 60,000 pounds/hour boiler (#3) with two 30,000 pounds/hour boilers on East campus. The project includes replacing deaerator and feedwater pumps, which have reached the end of their useful life, and installing a condensate polisher. The project will provide greater energy efficiency and fault tolerance.

The replacement of the existing boiler (#6) on City campus by new boiler (#8), which has a capacity of 80,000 pounds/hour at 250 psi, is underway. Boiler (#6) demolition is almost complete. The delivery of the new boiler (#8) occurred in June 2022 and parts are being assembled. This new boiler is set to provide adequate steam production to the campus.

The project to improve Chiller 4 efficiency is in process on City campus. Evaporator tube installation and piping modification are complete, and gearbox installation is in process. Performance testing will begin after installation of the gearbox. The estimated annual savings from the completion of this project is about $100,000, depending on run-time. This project will increase the lifespan and reliability of equipment.

FINANCIAL REPORT OVERVIEW

The information provided in the MD&A section of the Financial Report is provided to explain activities, plans and events that impacted Nebraska Utility Corporation's (NUCorp) financial position and operating results for the 12-month periods ended June 30, 2022, 2021 and 2020. This overview from management is one of the three components of the Financial Report. The other two components are the Financial Statements and Notes to the Financial Statements. The Financial Report should be read in its entirety to understand the events and conditions impacting NUCorp.

Balance Sheet - This statement presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Assets and liabilities are each divided to distinguish current versus noncurrent. This statement reveals liquidity, financial flexibility, and capital structure.

Statement of Revenues, Expenses and Changes in Net Position - Operating results are separated into operating revenue and expense and non-operating income and expense. This statement is useful in analyzing the financial health of the organization.

Statement of Cash Flows - This statement classifies sources and uses of cash summarized by operating, non-capital financing, capital and related financing and investing activities.

Notes to Financial Statements - The notes are an explanation of information within the Financial Statements

Comparison of 2021 to 2020

Operating revenues for 2021 were $27,307,704, a decrease of $1,174,781 from 2020 operating revenues of $28,482,485. The decrease was primarily due to reduced fixed charges and commodity sales variations.

OPERATING EXPENSES

The following chart illustrates operating expenses by category.

Comparison of 2022 to 2021

Operating expenses for 2022 were $23,021,069, an increase of $1,403,304 from 2021 operating expenses of $21,617,765. The increases in general expenses, steam and electric services were primarily due to higher maintenance costs. These increases were offset by lower water and sewer distribution expenses as a result of lower sales and plant consumption.

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
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CONDENSED STATEMENTS OF CASH FLOWS

	2022	2021	**2020**
Cash Flows from Operating Activities	**$ 9,222,417**	$ 10,204,314	$ 6,699,850
Cash Flows from Capital and Related Financing	**(10,013,354)**	(8,676,775)	(3,931,426)
Cash Flows from Investing Activities	**16,351,146**	100,864	(4,632,127)
CHANGE IN CASH & CASH EQUIVALENTS	**$ 15,560,209**	$ 1,628,403	$

DEBT SERVICE COVERAGE

The following table reflects the calculation of the debt service coverage ratio. The ratio reflects NUCorp's year-end funds available to pay its debt service. NUCorp's bond resolution establishes a debt service coverage requirement of 1.10.

	2022	2021	**2020**
Operating Revenues	**$ 28,717,919**	$ 27,307,704	$ 28,482,485
Administration	**(911,067)**	(909,250)	(948,449)
Steam	**(5,821,796)**	(5,389,202)	(5,310,025)
General Operating and Maintenance	**(1,484,489)**	(1,037,975)	(1,093,790)
Electric	**(6,707,025)**	(6,255,739)	(6,810,702)
Water/Sewer	**(195,154)**	(318,377)	(173,079)

Actual and budgeted capital expenditures for 2020 through 2023 included the following:

City Campus:

- Replacement of Boiler (#6) which was installed in 1969 and has reached the end of its useful life. A new boiler (#8) is required to meet campus demand while maintaining adequate steam production redundancy.

- 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.

- Construction of a new mechanical maintenance shop due to the Boiler (#6) project displacing the current maintenance shop.

- Improvement to the steam tunnel infrastructure to increase safety, reliability, and longevity of the steam distribution system.

- Replacement the steam line tunnel inside Nebraska Hall with a direct buried service to improve safety and reliability of steam service in this area.

East Campus:

- Installation of new sensors, actuators, and PLC controls on steam equipment at the East campus utility plant will lead to full automation and dispatch of steam production equipment.

- Steam tunnel infrastructure improvements to increase safety, reliability, and longevity of the steam distribution system.

- Upgrade of Utility Plant Boiler (#3) which is nearing the end of its useful life.

Common

- Implementation of data historian and analytic software to perform improved analytics, visualization, reporting and system optimization.

- Extension of chilled water to Mussel Hall, Stadium Parking garage, and the Carson center to replace failing stand-alone cooling systems and allow for better demand management.

CONTACT INFORMATION

This financial report is designed to provide a general overview of NUCorp's financial status for the fiscal periods ending 2022, 2021 and 2020. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the NUCorp Chief Financial Officer at 9445 Rokeby Rd., Lincoln, Nebraska 68526.

Nebraska Utility Corporation

(A Component Unit of the University of Nebraska)

Balance Sheets

June 30, 2022 and 2021

Assets and Deferred Outflows of Resources

	2022	2021
Current Assets		
Cash an		

Nebraska Utility Corporation

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Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2022 and 2021

	2022	2021
Operating Revenues	$ 28,717,919	$ 27,307,704
Operating Expenses		
Administration	911,067	909,250
Steam	5,821,796	5,389,202
General operating and maintenance	1,484,489	1,037,975
Electric	6,707,025	6,255,739
Water/sewer	195,154	318,377
Chilled water	2,839,867	2,756,637
Municipal utility services	497,767	446,113
Cooling tower water	1,032,255	1,031,445
Cooling tower water loop	48,131	44,962
CRES services	200,100	187,026
Depreciation	3,283,418	3,241,039
Total operating expenses	23,021,069	21,617,765
Operating income	5,696,850	5,689,939
Nonoperating Income (Expenses)		
Interest expense on long-term debt	(618,599)	(659,120)
Investment income	21,162	17,432
Interest rate subsidy – QECB	387,875	387,875
Net costs recoverable	(12,306)	(12,624)
Loss on disposal of plant asset	-	(33,715)
Total nonoperating expenses	(221,868)	(300,152)
Change in Net Position	5,474,982	

Nebraska Utility Corporation
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Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Operating Activities		
Received from sales to customers and users	$ 28,769,787	$ 29,651,974
Paid to suppliers for goods and services	(19,547,370)	(19,447,660)
Net cash flow provided by operating activities	9,222,417	10,204,314
Capital and Related Financing Activities		
Capital expenditures for utility plant	(7,933,767)	(6,726,512)
Principal payments on long-		

Nebraska Utility Corporation

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Notes to Financial Statements

June 30, 2022 and 2021

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Nebraska Utility Corporation (NUCorp), a public benefit corporation, was organized on May 17, 2001 for the purpose of purchasing, leasing, constructing, and financing facilities and acquiring services in order to furnish energy requirements, utility and infrastructure facilities, and all related energy, utility, and infrastructure services to the University of Nebraska Lincoln (UNL). Operations commenced in January 2002. UNL is the primary user of the energy generated by NUCorp and accounts for all of NUCorp's operating revenues.

The Board of Directors consists of five members. Three members are appointed by the University of Nebraska Board of Regents and two members are appointed by Lincoln Electric System. NUCorp is included as a component unit in the financial statements of the University of Nebraska.

Basis of Accounting and Presentation

The financial statements of NUCorp have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements are reported using the economic resource measurement focus and use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange transaction takes place.

NUCorp's accounting polices also follow the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-

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 - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds at period-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of the net amount of the assets and liabilities that do not meet the definition of restricted or net investment in capital assets.

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

Classification of Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with NUCorp's principal ongoing operations. The principal operating revenues of NUCorp are charges to customers for services. Operating expenses for NUCorp include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating income and expenses.

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Notes to Financial Statements

NUCorp had the following investments as of June 30:

		Maturities in Years		Credit
	Carrying	Less		Ratings
June 30, 2022	Value	Than 1	1 - 5	Moody's / S&P
Money market mutual funds	$			

Summary of Carrying Values

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

	2022	2021
Deposits	$ 1,164,538	$ 1,405,459
Investments	20,681,990	21,213,627

Note 3: Fair Value Measurements

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

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

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

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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2022 and 2021:

June 30, 2022	Level 1	Level 2	Level 3	Total
	$ -	$ 441,465	$ -	$ 441,465
Totals	$ -	$ 441,465	$ -	$ 441,465

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
Totals	$56.2 (u)-32.3			

Note 4: Capital Assets

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

Note 5: Long-Term Debt

The outstanding revenue bonds and direct placement bonds contain a provision that in an event of default, owners of not less than 25% of the principal amount of the bonds outstanding can appoint a receiver, who if empowered, can bring suit against NUCorp for any principal and interest payments that are delinquent.

The official statement defines an event of default as missing principal and/or interest payments on the due date for a period of 30 days, failure to observe and perform any of its other covenants, conditions or agreements under the resolution within 90 days of receipt of written notice from the owners of not less than 25% in aggregate principal amount of bonds then outstanding, failure of the corporation to generally pay its debts as they become due, or failure to act within 90 days of action brought against the corporation under the Federal bankruptcy laws, or any other applicable Federal or state bankruptcy, insolvency or similar law. These bonds are uncollateralized.

Revenue Bonds

Revenue bonds are payable from and secured by a pledge of NUCorp's revenues subject to the prior payment therefrom of the operations and maintenance expenses. All bond proceeds are utilized to finance capital construction costs.

NUCorp's outstanding revenue bonds consist of Series 2014B totaling $5,500,000 as of June 30, 2022. These revenue bonds are secured by the net revenues of NUCorp.

Direct Placement Bonds

NUCorp's outstanding direct placement revenue bonds consist of Series 2014A totaling $6,500,000 as of June 30, 2022. These direct placement revenue bonds are secured by the net revenues of NUCorp.

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, 2021	Increase	Decrease	June 30, 2022	Due Within One Year
Revenue bonds	$ 7,535,000	$ -	$(2,035,000)	$ 5,500,000	$ -
Revenue bonds (direct placement)	6,500,000	-	-	6,500,000	-
Total	$ 14,035,000	$ -	$(2,035,000)	$12,000,000	$ -

	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	$ 15,550,000	$ -	$(1,515,000)	$14,035,000	$ 2,035,000

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Notes to Financial Statements

June 30, 2022 and 2021

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.

Note 8: Subsequent Events

Through several