

FREEMAN & RIGGS

RONALD V. FREEMAN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

LAURA RIGGS, CPA

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited the financial statements of Butler Public Power District for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 15, 2013. We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Services (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Butler Public Power District for the years ended December 31, 2012 and 2011, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Section 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(1), related party transactions, depreciation rates, a schedule of deferred debits and credits, and a schedule of investments, upon which we express an opinion.

In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated March 15, 2013) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matter regarding Butler Public Power District's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records.
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts.
- The materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations contracts, and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgages to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2012:
 - There were no new written contracts entered into during the year for the operation or maintenance of all or any part of its property, or for the use of its property by others.
 - Reviewed Board of Director minutes to ascertain that there were no board-approved written contracts, entered into during the year for the operation or maintenance of all or any part of its property.
 - Procedure performed with respect to the requirement to submit RUS Form 7 to the RUS:
 - Agreed amounts reported in Form 7 to Butler Public Power District's records.

The results of our tests indicate that, with respect to the items tested, Butler Public Power District complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in Part 1773.33(e)(1)(i).
- The borrower has submitted its Form 7 to the RUS and the Form 7, Financial and Statistical Report, as of December 31, 2012, represented by the borrower as having been submitted to RUS, is in agreement with the Butler Public Power District's audited records in all material respects, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Butler Public Power District, nothing came to our attention that caused us to believe that Butler Public Power District failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1).
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2).
- The retirement of plant addressed at 7 CFR Parts 1773.33(c)(3) and (4).
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5).
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards N. 57, Related Party Transactions, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(f).
- Depreciation rates addressed at 7 CFR Part 1773.33(g).
- The detailed schedule of deferred debits and deferred credits.
- The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773.33(h) and the detailed schedule of investments required by 7 CFR Part 1773.33(i), and provided below, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schedule of Deferred Debits/Credits

Schedule of Investments in Affiliated Companies

Deferred Debits as of December 31, 2012

None in 2012

| | |
|-----------------------|--------------|
| Bond issuance costs | \$485,355 |
| Meter conversion | 8,595 |
| Redistricting expense | <u>3,819</u> |
| | \$497,769 |

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Services and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Omaha, Nebraska
March 15, 2013

**NEBRASKA 59 BUTLER
BUTLER PUBLIC POWER DISTRICT**

DAVID CITY, NEBRASKA

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

FREEMAN & RIGGS

Certified Public Accountants

FREMONT, NEBRASKA
OMAHA, NEBRASKA

BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

I-N-D-E-X

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BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

BOARD OF DIRECTORS

| <u>Name</u> | <u>Address</u> | <u>Business</u> |
|-----------------|-----------------|-----------------|
| Gordon Ohnoutka | Valparaiso, NE | Farming |
| John D. Schmid | Bellwood, NE | Farming |
| Larry A. Dauel | Malmo, NE | Farming |
| Steve Barlean | David City, NE | Farming |
| Walter K. Crook | Rising City, NE | Insurance CEO |
| Gary Yinkrick | David City, NE | Farming |
| Gary L. Kucera | Brainard, NE | Farming |

OFFICERS, MANAGER AND ATTORNEY

| | |
|------------------|--------------------|
| John D. Schmid | President |
| Steve Barlean | Vice-President |
| James E. Papik | Secretary/Attorney |
| Gary L. Kucera | Treasurer |
| Gary S. Westphal | General Manager |
| Darlene Stara | Accounting Manager |

FREEMAN & RIGGS

RONALD V. FREEMAN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

LAURA RIGGS, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited the accompanying statements of net assets of the Butler Public Power District as of December 31, 2012 and 2011, and the related statements of revenue and expense and change in net assets and cash flows for the years then ended. The financial statements are the responsibility of the District's management. 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butler Public Power District as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepting in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2013, on our consideration of Butler Public Power District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked, "unaudited", is fairly stated in all material respects in relation to the basic financial statements as a whole.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS
Fremont, Nebraska
March 15, 2013

BUTLER PUBLIC POWER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2012 AND 2011

ASSETS

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Electric plant, at cost (Note 2) | \$42,641,430 | \$39,802,473 |
| Less accumulated depreciation | <u>10,394,997</u> | <u>10,319,915</u> |
| Net electric plant | <u>32,246,433</u> | <u>29,482,558</u> |
| Investments: | | |
| Investments in other organizations (Note 3) | 448,310 | 435,170 |
| Debt reserve funds (Notes 4 and 10) | <u>1,329,560</u> | <u>1,319,950</u> |
| | <u>1,777,870</u> | <u>1,755,120</u> |
| Current Assets: | | |
| Cash and cash equivalents (Notes 1 and 10) | - | 318,896 |
| Cash – construction fund | - | 1,431,340 |
| Temporary investments (Notes 4 and 10) | 5,731,351 | 5,108,006 |
| Accounts receivable (Less provision for doubtful accounts of \$27,080 in 2012 and \$21,910 in 2011) | 1,384,207 | 1,302,860 |
| Materials and supplies (Note 1) | 1,232,711 | 899,421 |
| Prepaid expenses | <u>14,060</u> | <u>35,103</u> |
| Total current assets | <u>8,362,329</u> | <u>9,095,626</u> |
| Deferred Debits (Note 5) | <u>497,769</u> | <u>506,582</u> |
| Total Assets | <u>\$42,884,401</u> | <u>\$40,839,886</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| Net Assets: | | |
| Invested in capital assets, net of related debt | \$16,689,599 | \$13,232,598 |
| Unrestricted | <u>8,955,041</u> | <u>9,353,059</u> |
| Total net assets | <u>25,644,640</u> | <u>22,585,657</u> |
| Long-Term Debt, net of current maturities | <u>14,718,834</u> | <u>15,498,960</u> |
| Current Liabilities: | | |
| Accounts payable | 1,252,974 | 1,618,234 |
| Consumer deposits and prepayments | 172,432 | 140,146 |
| Accrued expenses | 257,521 | 245,889 |
| Current amount of long-term debt (Note 6) | <u>838,000</u> | <u>751,000</u> |
| Total current liabilities | <u>2,520,927</u> | <u>2,755,269</u> |
| Total Liabilities and Net Assets | <u>\$42,884,401</u> | <u>\$40,839,886</u> |

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

BUTLER PUBLIC POWER DISTRICT
STATEMENTS OF REVENUE AND EXPENSE AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|---------------------|---------------------|
| Operating Revenue: | | |
| Electric energy sales | <u>\$17,623,761</u> | <u>\$14,668,161</u> |
| Operating Expenses: | | |
| Cost of power | 10,555,947 | 8,309,063 |
| Distribution | 701,449 | 651,721 |
| Maintenance | 818,970 | 908,690 |
| Customer accounts | 325,288 | 325,555 |
| Sales expenses | 121,082 | 139,281 |
| Administration and general | 646,782 | 658,921 |
| Depreciation and amortization | 962,949 | 881,245 |
| Taxes | 674 | 7,925 |
| Total operating expenses | <u>14,133,141</u> | <u>11,882,401</u> |
| Net operating revenue | <u>3,490,620</u> | <u>2,785,760</u> |
| Non-operating Revenue: | | |
| Interest revenue | 108,409 | 270,740 |
| Other non-operating income | <u>116,633</u> | <u>142,742</u> |
| Total non-operating revenue | <u>225,042</u> | <u>413,482</u> |
| Interest – Long-term debt | <u>656,679</u> | <u>600,755</u> |
| Net revenue | 3,058,983 | 2,598,487 |
| Net Assets, beginning of year | <u>22,585,657</u> | <u>19,987,170</u> |
| Net Assets, end of year | <u>\$25,644,640</u> | <u>\$22,585,657</u> |

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

BUTLER PUBLIC POWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|--|--------------------|--------------------|
| <u>Cash Flows from Operating Activities:</u> | | |
| Cash received from customers | \$12,651,135 | \$14,580,576 |
| Cash payments to suppliers | (6,505,679) | (12,174,994) |
| Cash payments to employees | <u>(1,612,765)</u> | <u>(1,576,227)</u> |
| Net cash provided by operating activities | <u>4,532,691</u> | <u>829,355</u> |
| <u>Cash Flows from Capital and Related Financing:</u> | | |
| Additions to electric plant | (3,744,168) | (3,563,626) |
| Retirement of electric plant | 17,344 | 110,319 |
| Bond issues | 3,450,000 | 3,510,000 |
| Payments on long-term debt | (4,143,126) | (630,553) |
| Interest paid on long-term debt | <u>(656,679)</u> | <u>(600,755)</u> |
| Net cash provided by capital & related financing | <u>(5,076,629)</u> | <u>(1,174,615)</u> |
| <u>Cash Flows from Investing Activities:</u> | | |
| Interest income on investments | 108,409 | 270,740 |
| Miscellaneous non-operating revenue | <u>116,633</u> | <u>142,742</u> |
| Net cash provided from investing activities | <u>225,042</u> | <u>413,482</u> |
| <u>New Increase (Decrease) in Cash</u> | (318,896) | 68,222 |
| <u>Cash at Beginning of Year</u> | <u>318,896</u> | <u>250,674</u> |
| <u>Cash at End of Year</u> | <u>\$ -</u> | <u>\$318,896</u> |
| <u>Reconciliation of Operating Income and Net Cash Provided from Operating Activities:</u> | | |
| Operating income | \$3,490,620 | \$2,785,760 |
| Adjustments to reconcile operating income to net cash provided from operating activities | | |
| Depreciation | 962,949 | 881,245 |
| Changes in current assets and liabilities | | |
| (Increase) decrease in other organizations | (13,140) | (14,123) |
| (Increase) decrease in investments | (623,345) | (1,626,525) |
| (Increase) decrease in receivables | (81,347) | (87,585) |
| (Increase) decrease in materials and supplies | (333,290) | (6,990) |
| (Increase) decrease in prepaid expenses | 21,043 | (4,496) |
| (Increase) decrease in debt reserve funds | (9,610) | (273,000) |
| Increase (decrease) in customer deposits | 32,286 | 32,522 |
| Increase (decrease) in accounts payable | (365,260) | 483,265 |
| Increase (decrease) in accrued expenses | 11,632 | 18,086 |
| (Increase) decrease in deferred debits | 8,813 | (31,945) |
| (Increase) decrease in cash construction fund | <u>1,431,340</u> | <u>(1,326,859)</u> |
| Net cash provided by operating activities | <u>\$4,532,691</u> | <u>\$829,355</u> |

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

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

All significant activities and organization which the District exercises oversight responsibility have been included in the District's financial statements. There are no component units of the District which need to be considered for inclusion in the financial statements.

Organization and Business

Butler Public Power District is a political subdivision of the State of Nebraska and accordingly, there are no provisions for income taxes. The District follows the uniform system of accounts as prescribed by the Rural Utilities Service (RUS).

The District, as a public electric utility, grants credit to users including residential, commercial and irrigation customers located in Eastern Nebraska.

Electric Plant

Electric plant is stated at cost. The provision for depreciation is computed on a straight-line basis. Costs of labor, materials, supervision and other expenses incurred in making normal repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Electric plant accounts are charged with the costs of improvements and replacements, except minor replacements and the accumulated provisions for depreciation are charged with retirements, together with removal costs, less salvage.

Cash and Investments

Investments are recorded at cost which approximates fair value.

For the purpose of the statement of cash flows, equivalents are defined as investments which are short-term and highly liquid in nature with original maturities of three months or less.

Materials and Supplies Inventories

Materials and supplies are stated at the lower of cost or replacement market. Cost is generally determined on a weighted average basis.

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 amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Billing for electric energy operating sales, excluding irrigation, are rendered monthly through approximately the 20th of each month. Irrigation is billed from June through November. The District does not record unbilled sales representing estimated consumption by consumers for the period between the last billing date and the end of the year.

Basis of Accounting

The financial statements of the District are presented in accordance with generally accepted accounting principles for proprietary funds of governmental entities. Accounting records are maintained generally in accordance with the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS) and all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the District has elected not to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

2. ELECTRIC PLANT

The major classes of electric plant are as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|---------------------|---------------------|
| Intangible plant | \$1,320 | \$1,320 |
| Transmission plant | 5,670,200 | 5,303,607 |
| Distribution plant | 30,191,242 | 29,033,385 |
| General plant | <u>4,689,251</u> | <u>4,279,871</u> |
| Plant in service | 40,552,013 | 38,618,183 |
| Construction work in progress | <u>2,089,417</u> | <u>1,184,290</u> |
| | <u>42,641,430</u> | <u>39,802,473</u> |
| Accumulated depreciation: | | |
| Transmission plant | 1,809,492 | 1,732,672 |
| Distribution plant | 5,172,969 | 5,456,583 |
| General plant | 3,394,302 | 3,134,463 |
| Retirement work in progress | <u>18,234</u> | <u>(3,803)</u> |
| Total | <u>10,394,997</u> | <u>10,319,915</u> |
| Net electric plant | <u>\$32,246,433</u> | <u>\$29,482,558</u> |

Depreciation provisions were as follows:

| | | |
|---------------------------------|--------------------|--------------------|
| Charged to depreciation expense | \$962,949 | \$881,245 |
| Charged to other accounts | <u>159,103</u> | <u>162,191</u> |
| | <u>\$1,122,052</u> | <u>\$1,043,436</u> |

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

2. ELECTRIC PLANT (continued)

Provisions for depreciation have been made on the straight-line method at the following annual rates:

| | |
|--------------------|---------------|
| Transmission plant | 2.75% |
| Distribution plant | 2.70% |
| General plant | 2.40 – 16.70% |
| Unclassified plant | 2.70 – 2.75% |

3. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

The investments in associated organizations were comprised of the following at December 31, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| CFC | | |
| Membership fee and patronage | | |
| Capital certificates | \$1,300 | \$1,300 |
| Capital term certificates | <u>320,354</u> | <u>320,354</u> |
| | 321,654 | 321,654 |
| Nebraska Electric Generation and Transmission Cooperative, Inc., membership and patronage | | |
| Capital credits | 35,199 | 32,874 |
| Other | <u>91,457</u> | <u>80,642</u> |
| | <u>\$448,310</u> | <u>\$435,170</u> |

The interest earned on the capital term certificates is 5 percent. The certificates will mature beginning October 1, 2070, or earlier at the option of CFC.

4. TEMPORARY INVESTMENTS

Temporary investments consisted of certificates of deposit and money markets at banks in the amount of \$5,731,351 at December 31, 2012 and \$5,108,006 at December 31, 2011.

5. DEFERRED DEBITS

Deferred debits consist primarily of bond issuance and defeasance costs. These costs have been deferred and are being amortized over the life of the bonds.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

6. LONG-TERM DEBT

A summary of long-term debt is as shown below:

| | 2011 | Additions (Retirements) | 2012 |
|--|---------------------|----------------------------|---------------------|
| 5.0% RUS construction notes, due in varying amounts through 2016 | 639,960 | (63,126) | 576,834 |
| 2007 Electric System Revenue Bonds, 3.30% to 4.50% per annum, due in varying amounts through 2032 | 3,440,000 | (3,440,000) | - |
| 2008 Electric System Revenue Bonds, 2.65% to 5.65% per annum, due in varying amounts through 2028 | 860,000 | (35,000) | 825,000 |
| 2009A Electric System Revenue Refunding Bonds, 1.25% to 5.00% per annum, due in varying amounts through 2026 | 280,000 | (40,000) | 240,000 |
| 2009B Electric System Revenue Refunding Bonds, 1.65% to 2.80% per annum, due in varying amounts through 2015 | 365,000 | (85,000) | 280,000 |
| 2009C Electric System Revenue Bonds, 1.00% to 4.50% per annum, due in varying amounts through 2029 | 3,050,000 | (125,000) | 2,925,000 |
| 2010A Electric System Revenue Refunding Bonds, .90% to 4.10% per annum, due in varying amounts through 2025 | 1,460,000 | (70,000) | 1,390,000 |
| 2010B Electric System Revenue Refunding Bonds, .85% to 4.40% per annum, due in varying amounts through 2030 | 2,645,000 | (110,000) | 2,535,000 |
| 2011A Electric System Revenue Bonds, .65% to 4.70 per annum, due in varying amounts through 2031 | 3,510,000 | (135,000) | 3,375,000 |
| 2012 Electric System Revenue Refunding Bonds, .35% to 3.40% per annum, due in varying amounts through 2030 | - | 3,450,000 (40,000) | 3,410,000 |
| | 16,249,960 | (693,126) | 15,556,834 |
| Less current installments | <u>751,000</u> | <u>87,000</u> | <u>838,000</u> |
| | <u>\$15,498,960</u> | <u>(\$780,126)</u> | <u>\$14,718,834</u> |

During 2012, the District issued \$3,450,000 in revenue refunding bonds to refund the 2007 bonds, resulting in a net savings over the life of the bonds of \$765,014.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

6. LONG-TERM DEBT (continued)

All assets and revenue of the District are pledged as security for the long-term debt to RUS.

The Electric System Revenue Bond indentures, under which the bonds were issued, provide for the creation and maintenance of debt service funds. The funds are invested in area banks and will be used to pay principal and interest on the bonds in the event that any deficiencies might occur in the debt service funds.

Principal and interest on the revenue bonds are payable from and secured solely by the revenue of the District, after deducting the cost of operation and maintenance, and the funds established by the bond indentures including interest earned on those funds.

As of December 31, 2012, approximate principal and interest payments are due as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------|---------------------|--------------------|---------------------|
| 2013 | \$838,000 | \$529,054 | \$1,367,054 |
| 2014 | 845,000 | 589,269 | 1,434,269 |
| 2015 | 867,000 | 496,831 | 1,363,831 |
| 2016 | 799,000 | 478,335 | 1,277,335 |
| 2017 | 776,000 | 458,378 | 1,234,378 |
| Thereafter | <u>11,431,834</u> | <u>3,346,811</u> | <u>14,778,645</u> |
| | <u>\$15,556,834</u> | <u>\$5,898,678</u> | <u>\$21,455,512</u> |

7. RETIREMENT PLAN

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

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

Butler Public Power Districts' contributions to the RS Plan in 2012 and in 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. Butler Public Power District made contributions to the plan of \$399,136 in 2012, \$395,445 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions. Plan members become fully vested after five years of service.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

7. RETIREMENT PLAN (continued)

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

The District also has a 401(K) savings plan for employees. Employee contributions are voluntary and cannot exceed 21% of salary. The District matches employee contributions up to 3.0% of salary.

| | 2012 | 2011 |
|------------------------|-------------|-------------|
| Total payroll | \$1,612,765 | \$1,576,227 |
| Employee contributions | 100,593 | 87,950 |
| Employer contributions | 43,774 | 42,296 |

Employees must be 21 years of age and have one year of service to participate in the plan.

8. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the District provides post-retirement health care benefits (the Plan) to all full-time employees hired prior to 1994, who retire after age 62. The District will contribute 2% of the monthly health insurance premium to the Plan for each retiree for each year of service to a maximum of 70%. Expenditures for post-retirement health care benefits are recognized when paid. Expenditures for post-retirement health care were \$46,718 in 2012 and \$52,555 in 2011.

9. POWER SUPPLY CONTRACT

The District purchases power under a long-term “all requirements” wholesale power supply contract with the Nebraska Electric Generation & Transmission Cooperative, Inc. The contract is subject to periodic rate reviews and can be converted to a “fixed requirement contract” upon five years notice.

10. CASH AND INVESTMENTS

As of December 31, 2012, the carrying amount of the District’s cash and certificates of deposit, which includes debt reserve funds, was \$4,230,517 and the bank balances were \$4,940,753. Of the bank balances, \$1,500,000 was insured by Federal Depository Insurance and \$4,416,763 was covered by securities held by agents of the depositories in the District’s name in the form of joint safekeeping receipts. State law required all funds in depositories to be fully insured or collateralized.

Nebraska Statutes limit the District to investments as provided in the authorized investment guidelines of the Nebraska Investment Council.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

10. CASH AND INVESTMENTS (continued)

Custodial Credit Risk – The amounts pledged by the banks and FDIC insurance were adequate to protect deposits at December 31, 2012. The Board of Directors approve the banks in which monies or securities of the District will be deposited.

Credit-Risk – The District’s investment policy is to comply with state statutes for governmental entities, which limits investments to investment grade fixed income obligations. Financial instruments that potentially subject the District to concentration of credit risk consist principally of NRECFC Medium Term Notes held at a creditworthy financial institution. These funds are pooled investments and are guaranteed by RUS.

Interest Rate Risk – The District is a buy-and-hold investor, which minimizes interest rate risk.

11. LINE OF CREDIT

As of December 31, 2012 and 2011, the District had a line of credit of \$1,500,000 of which none is being used, with the National Rural Utilities Cooperative Finance Corporation, Herndon, Virginia. The line of credit renews automatically each year.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited the financial statements of Butler Public Power District as of and for the years ended December 31, 2012 and 2011 and have issued our report thereon dated March 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler Public Power District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butler Public Power District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Butler Public Power District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Fremont, Nebraska
March 15, 2013

BUTLER PUBLIC POWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

| <u>Federal Grantor/Pass-through Grantor/Program</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---|---------------------------------|
| Federal Emergency Management Agency Pass-through programs from: | | | |
| Nebraska Emergency Management Agency (NEMA): | | | |
| Marietta to Keystone Power Transmission Line Upgrade | 97.039 | 1770-DR-NE | \$848,835 |
| Total expenditures for federal awards | | | <u>\$848,835</u> |

BUTLER PUBLIC POWER DISTRICT
NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
DECEMBER 31, 2012

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Butler Public Power District under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the Butler Public Power District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Butler Public Power District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, where in certain types of expenditures are not allowable or are limited as a reimbursement.

Certain federal awards received by Butler Public Power District are funded on a cost-reimbursement basis whereby expenditures are subject to audit by various government agencies prior to submitting reimbursement. Under such circumstances and in a manner consistent with the basis of accounting described above, expenditure balances for these awards represent when the liability was incurred during the course of the year. This treatment results in timing differences, which are resolved over the term of the award period.

3. PASS-THROUGH AWARDS

The District receives certain federal awards in the form of pass-through awards from various departments of the State of Nebraska. Such amounts received as pass-through awards are specifically identified on the Supplementary Schedule of Expenditures of Federal Awards.

4. CONTINGENCIES

The District receives funds under various federal award programs and such assistance is to be expended in accordance with the provisions of the various awards. Compliance with the awards is subject to audit by various government agencies which may impose sanctions in the event of non-compliance. Management believes that they have complied with all aspects of the various award provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133Compliance

We have audited Butler Public Power District's (District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of the States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, Auditor of Public Accounts, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Omaha, Nebraska
March 15, 2013

BUTLER PUBLIC POWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012

SECTION I – Summary of Results

Financial statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

*Material weakness(es) identified Yes No

*Significant deficiency(ies) identified that are
Not considered to be material weakness? Yes None
Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

*Material weakness(es) identified Yes No

*Significant deficiency(ies) identified that are
Not considered to be material weakness? Yes None
Reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a)
of Circular A-133 Yes No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|--------------|--|
| 97.039 | Marietta to Keystone Power Transmission Line Upgrade |

Dollar threshold used to distinguish
between type A and type B Programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

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

BUTLER PUBLIC POWER DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2012

NONE

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