

FREEMAN & RIGGS

RONALD V. FREEMAN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

LAURA RIGGS, CPA

Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Butler Public Power District, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenue and expense, and changes in net position and cash flows for the year, then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrows*, and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the District's accounting and records to indicate that the District did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Omaha, Nebraska
March 23, 2017

**NEBRASKA 59 BUTLER
BUTLER PUBLIC POWER DISTRICT**

DAVID CITY, NEBRASKA

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

FREEMAN & RIGGS

Certified Public Accountants

FREMONT, NEBRASKA
OMAHA, NEBRASKA

BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

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BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

BOARD OF DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Business</u>
Mark Blazek	Valparaiso, NE	Banking
John D. Schmid	Bellwood, NE	Farming
Larry A. Dauel	Malmo, NE	Farming
Mike Dewispelare	David City, NE	Farming
Walter K. Crook	Rising City, NE	Retired
Gary Yindrick	David City, NE	Retired
Gary L. Kucera	Brainard, NE	Farming

OFFICERS, MANAGER AND ATTORNEY

John D. Schmid	President
Mike Dewispelare	Vice-President
James E. Papik	Secretary/Attorney
Mark Blazek	Treasurer
Mark Kirby	General Manager
Darlene Stara	Accounting Manager

BUTLER PUBLIC POWER DISTRICT
1331 N 4th ST. DAVID CITY, NE 68632

MANAGEMENTS DISCUSSION AND ANALYSIS

This section of the Butler Public Power District's annual Financial Report presents an analysis of the District's financial performance during the fiscal year ending December 31, 2016. This information is presented in conjunction with the audited basic financial statements, which follow.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016

- The District's assets increased by \$5.6 million or 11.39% from \$49.2 million to \$54.8 million.
- Operating revenues increased by \$1.2 million or 6.82% from \$17.6 million to \$18.8 million.
- Operating expenses increased by \$.5 million or 3.29% from \$15.2 million to \$15.7 million.
- Projects undertaken during the fiscal year ending December 31, 2016:
 - **Major Distribution Projects**
 - Rebuilt 2.5 miles of 3 phase line of circuit (3) of substation 59-2 with new poles and 1/0 ASCR conductor.
 - The project will improve the reliability and line losses of our distribution system by retiring old 6A copper weld conductor. It also improves voltage issues with back feeding of our substation 59-10 circuit (2) if needed.
 - Rebuilt 2 of 4 miles of 3 phase line of the circuit (2) of substation 59-2 with new poles and 1/0 ASCR conductor.
 - This project will improve reliability and line losses of our distribution system by retiring old 6A copper weld conductor. It also improves voltage issues with back feeding of our circuit (3) of substation 59-2.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Assets includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the fiscal year ended December 31, 2016. This statement provides information on the District's operations of the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through utility rates and other charges.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Assets and the Statements of Revenue, Expenses and Changes in Net Assets provide an indication of the District's financial condition. The District's net assets reflect the difference between assets and liabilities. An increase in assets over time typically indicates an improvement in financial condition.

NET ASSETS

A summary of the District's Statements of Net Assets is presented below.

Table 1
Condensed Statements of Net Assets (In millions of Dollars)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Current & Other Assets	10.492	9.020	1.472	16.32
Capital Assets, net	46.209	40.701	5.508	13.54
Total Assets	56.701	49.721	6.980	14.04
Long-term Debt	17.301	13.298	4.003	30.11
Other Liabilities	2.091	2.276	-.185	-8.13
Total Liabilities	19.392	15.574	3.818	24.52
Net assets invested in Capital assets, net of Related debt	28.625	27.152	1.473	5.43
Net assets restricted For debt service	.328	.660	-.332	-50.31
Unrestricted net assets	8.356	6.335	2.021	31.91
Total Net Assets	56.701	49.721	6.980	14.04

As the above table indicates, total assets increased by \$6.98 million from \$49.721 million to \$56.701 million during the fiscal year ending December 31, 2016. This is comprised of an increase of \$1.473 million in current assets and an increase of \$5.508 million in capital assets.

Total liabilities reflect an increase of \$3.818 million. This includes an increase of \$4.003 million in long-term debt (which included funding for a new office and truck storage facility) and a decrease of \$.185 million in other liabilities.

In addition, net assets invested in capital assets, net of related debt, increased by \$1.473 million while net assets restricted for debt service decreased by \$.332 million.

Table 2
Condensed Statements of Revenue, Expenses
And Changes in Net Assets (In millions of Dollars)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	18.809	17.636	1.173	6.65
Non-Operating Revenue	.157	.178	-.021	-11.80
Total Revenue	18.966	17.814	1.152	6.47
Depreciation Expense	1.107	1.060	.047	4.44
Other Operating Expenses	14.136	13.631	.505	3.71
Non-Operating Expenses	.493	.491	.002	4.10
Total Expenses	15.736	15.182	.554	3.65
Operating Margins	3.230	2.632	.598	22.72
Miscellaneous Items	3.750	-.919	2.831	308.06
Change in Assets	6.980	1.713	5.267	307.48
Beginning Net Assets	49.721	48.008	1.713	3.57
Ending Net Assets	56.701	49.721	6.980	14.04

The Statement of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items which affect the change in net assets. As the information in Table 2 indicates, operating margins of \$3.23 million resulted in an increase of \$6.98 million in net assets by the end of the 2016 fiscal year.

Table 2 indicates that the District's revenues increased by \$1.152 million or 6.47 percent to \$18.966 million in the fiscal year that ended December 31, 2016. The increase in revenue was due to an increase in energy sales of \$1.173 million from \$17.636 million to \$18.809 million. Decreased non-operating revenue by \$.021 million from \$.178 million to \$.157 million. Total expenses increased by \$.554 million or 3.65 percent.

CAPITAL ASSETS

As of December 31, 2016, the District's investment in capital assets totaled \$46.209 million, which is an increase of \$5.508 million or 13.54 percent over the capital asset balance of \$40.701 million as of December 31, 2015.

The District has active construction projects as of December 31, 2016 totaling \$7.102 million as compared to \$3.871 million as of December 31, 2015.

LONG TERM DEBT

As of December 31, 2016, the District had \$17.301 million in outstanding debt compared to \$13.298 million as of December 31, 2015. The outstanding debt includes \$17.02 million in revenue bonds and .281 million due to National Rural Utilities Cooperative Finance Corporation. This also reflects the retirement of debt to Rural Utility Services.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the District's 2017 Fiscal Year Budget on December 9, 2016. The budget provides funding for the District's operating, capital and debt service costs for the 2017 Fiscal Year. There are a few capital projects that are funded in the budget, including substation, transmission and distribution projects.

We will be building a new substation for the Village of Dwight (59-43) outside of the village and retiring the old substation in the village. The building of the new substation will take care of safety concerns dealing with clearances in the village substation. The new sub will also take some load off the Loma 59-10 substation and give circuit (4) another back feed while increasing reliability to the customers of Dwight and the surrounding area. This substation project will also include a new 3-way switch and a few new transmission line poles by the substation.

The transmission line project will be from Butler's 59-5 substation, west and north for 3 miles to Highway 81 to connect with Polk County Public Power District. It will be constructed and operated at 69Kv. The transmission conductor will be T-2 4/0 ACSR, with T-2 1/0 ACSR underbuild. This will give Butler PPD another transmission source from a NPPD 115Kv substation outside of Butler's service territory. This will increase liability for those customers served in the western part of Butler's service territory.

The distribution projects include Circuit (2) out of the Prague 59-2 substation, to be rebuilt for 2 miles. This project will finish the line upgrade for circuit (2) of the 59-2 substation. It will lower line losses and increase reliability. Circuit (3) of the 59-1 David City substation will be rebuilt for 4 miles to the two-way feed of circuit (2) of Rising City 59-4 substation. This will help with voltage issues during the irrigation season. It will also lower line losses and increase the reliability to the customers.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers and other interested parties an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information in this report or wish to request additional financial information, please contact the Accounting Manager at the Butler Public Power District, 1331 N 4th St., David City, Nebraska 68632.

FREEMAN & RIGGS

RONALD V. FREEMAN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

LAURA RIGGS, CPA

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited the accompanying financial statements of Butler Public Power District which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue and expense and changes in net position and cash flows for the years then ended and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butler Public Power District as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and required RS Plan contributions on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2017, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and in considering the District's control over financial reporting and compliance.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Fremont, Nebraska
March 23, 2017

BUTLER PUBLIC POWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Electric plant, at cost (Note 2)	\$54,833,612	\$49,179,083
Less accumulated depreciation	8,474,488	8,328,437
Net electric plant	<u>46,359,124</u>	<u>40,850,646</u>
Investments:		
Investments in other organizations (Note 3)	523,198	504,520
Debt reserve funds (Notes 4 and 10)	<u>327,793</u>	<u>659,793</u>
	<u>850,991</u>	<u>1,164,313</u>
Current Assets:		
Cash and cash equivalents (Notes 1 and 10)	222,942	349,974
Temporary investments (Notes 4 and 10)	6,083,092	4,261,260
Accounts receivable (Less provision for doubtful accounts of \$34,359 in 2016 and \$33,315 in 2015)	1,658,781	1,361,752
Materials and supplies (Note 1)	848,527	952,107
Prepaid expenses	<u>23,269</u>	<u>20,369</u>
Total current assets	<u>8,836,611</u>	<u>6,945,462</u>
Deferred Outflow of Resources (Note 5)	<u>654,274</u>	<u>760,096</u>
Total Assets	<u>\$56,701,000</u>	<u>\$49,720,517</u>

LIABILITIES AND NET POSITION

Net Position:		
Invested in capital assets, net of related debt	\$29,058,169	\$27,552,575
Restricted for debt service	1,728,610	1,457,397
Unrestricted	<u>6,522,273</u>	<u>5,068,705</u>
Total net position	<u>37,309,052</u>	<u>34,078,677</u>
Long-Term Debt, net of current maturities	<u>16,001,766</u>	<u>12,178,420</u>
Current Liabilities:		
Accounts payable	1,608,076	1,816,347
Consumer deposits and prepayments	201,216	211,145
Accrued expenses	281,701	316,277
Current amount of long-term debt (Note 6)	<u>1,299,189</u>	<u>1,119,651</u>
Total current liabilities	<u>3,390,182</u>	<u>3,463,420</u>
Total Liabilities and Net Position	<u>\$56,701,000</u>	<u>\$49,720,517</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 POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating Revenue:		
Electric energy sales	<u>\$18,809,465</u>	<u>\$17,636,065</u>
Operating Expenses:		
Cost of power	11,189,924	10,840,087
Distribution	812,541	737,645
Maintenance	942,350	902,475
Customer accounts	360,033	338,376
Sales expenses	113,315	85,104
Administration and general	717,718	727,632
Depreciation and amortization	1,106,681	1,060,365
Taxes	<u>992</u>	<u>992</u>
Total operating expenses	<u>15,243,554</u>	<u>14,692,676</u>
Net operating revenue	<u>3,565,911</u>	<u>2,943,389</u>
Non-operating Revenue:		
Interest revenue	154,373	100,780
Other non-operating income	<u>2,649</u>	<u>77,547</u>
Total non-operating revenue	<u>157,022</u>	<u>178,327</u>
Interest – Long-term debt	<u>(492,558)</u>	<u>(490,309)</u>
Net revenue	3,230,375	2,631,407
Net Position, beginning of year	<u>34,078,677</u>	<u>31,447,270</u>
Net Position, end of year	<u>\$37,309,052</u>	<u>\$34,078,677</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, 2016 AND 2015

	2016	2015
<u>Cash Flows from Operating Activities:</u>		
Cash received from customers	\$18,512,436	\$17,768,833
Cash payments to suppliers	(13,772,396)	(9,260,760)
Cash payments to employees	<u>(1,919,261)</u>	<u>(1,747,655)</u>
Net cash provided by operating activities	<u>2,820,779</u>	<u>6,760,418</u>
<u>Cash Flows from Capital and Related Financing:</u>		
Additions to electric plant	(6,932,736)	(5,963,255)
Retirement of electric plant	317,577	543,708
Increase in long term debt	7,985,000	3,580,000
Payments on long-term debt	(3,982,116)	(4,641,368)
Interest paid on long-term debt	<u>(492,558)</u>	<u>(490,309)</u>
Net cash provided by capital & related financing	<u>(3,104,833)</u>	<u>(6,971,224)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest income on investments	154,373	100,780
Miscellaneous non-operating revenue	<u>2,649</u>	<u>77,547</u>
Net cash provided from investing activities	<u>157,022</u>	<u>178,327</u>
<u>Net Increase (Decrease) in Cash</u>	(127,032)	(32,479)
<u>Cash at Beginning of Year</u>	<u>349,974</u>	<u>382,453</u>
<u>Cash at End of Year</u>	<u>\$222,942</u>	<u>\$349,974</u>
<u>Reconciliation of Operating Income and Net Cash Provided from Operating Activities:</u>		
Operating income	\$3,565,911	\$2,943,389
Adjustments to reconcile operating income to net cash provided from operating activities		
Depreciation	1,106,681	1,060,365
Changes in current assets and liabilities		
(Increase) decrease in other organizations	(18,678)	(20,450)
(Increase) decrease in investments	(1,821,832)	1,928,659
(Increase) decrease in receivables	(297,029)	132,768
(Increase) decrease in materials and supplies	103,580	27,762
(Increase) decrease in prepaid expenses	(2,900)	(2,228)
(Increase) decrease in debt reserve funds	332,000	441,700
Increase (decrease) in customer deposits	(9,929)	11,219
Increase (decrease) in accounts payable	(208,271)	89,766
Increase (decrease) in accrued expenses	(34,576)	41,789
(Increase) decrease in deferred debits	<u>105,822</u>	<u>105,679</u>
Net cash provided by operating activities	<u>\$2,820,779</u>	<u>\$6,760,418</u>

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

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016
(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).

Net Position

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

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

2. ELECTRIC PLANT

The major classes of electric plant are as follows:

	<u>2016</u>	<u>2015</u>
Intangible plant	\$1,320	\$1,320
Transmission plant	7,659,750	6,918,853
Distribution plant	35,237,049	33,041,638
General plant	<u>4,833,355</u>	<u>5,346,580</u>
Plant in service	47,731,474	45,308,391
Construction work in progress	<u>7,102,138</u>	<u>3,870,692</u>
	<u>54,833,612</u>	<u>49,179,083</u>
Accumulated depreciation:		
Transmission plant	2,219,229	2,118,791
Distribution plant	2,695,676	2,260,935
General plant	3,584,111	3,972,336
Retirement work in progress	<u>(24,528)</u>	<u>(23,625)</u>
Total	<u>8,474,488</u>	<u>8,328,437</u>
Net electric plant	<u>\$46,359,124</u>	<u>\$40,850,646</u>

Depreciation provisions were as follows:

Charged to depreciation expense	\$1,106,681	\$1,060,365
Charged to other accounts	<u>237,762</u>	<u>220,657</u>
	<u>\$1,344,443</u>	<u>\$1,281,022</u>

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(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, 2016 and 2015:

	<u>2016</u>	<u>2015</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	40,642	37,884
Other	<u>160,902</u>	<u>144,982</u>
	<u>\$523,198</u>	<u>\$504,520</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 \$6,083,092 at December 31, 2016 and \$4,261,260 at December 31, 2015.

5. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources previously consisted primarily of bond issuance and defeasance costs. These costs have been deferred and were being amortized over the life of the bonds. GASB 65 now requires unamortized debt discounts to be expensed as incurred.

The District was able to reduce their obligation to the retirement and security program with NRECA by making a prepayment of \$1,030,480. This deferred outflow of resources is being amortized over 10 years beginning in May 2013.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(continued)

6. LONG-TERM DEBT

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

	2015	Additions (Retirements)	2016
5.0% RUS construction notes, due in varying amounts through 2016	102,465	(102,465)	-
2011A Electric System Revenue Bonds, .65% to 4.70 per annum, due in varying amounts through 2031	2,965,000	(2,965,000)	-
2012 Electric System Revenue Refunding Bonds, .35% to 3.40% per annum, due in varying amounts through 2030	2,885,000	(180,000)	2,705,000
2013 Electric System Revenue Refunding Bonds, .45% to 4.20% per annum, due in varying amounts through 2028	705,000	(50,000)	655,000
2013 CFC Loan, 2.05% per annum, due in varying amounts through 2018	500,606	(219,651)	280,955
2014 Electric System Revenue Refunding Bonds, .45% to 3.60% per annum, due in varying amounts through 2029	2,560,000	(160,000)	2,400,000
2015A Electric System Revenue Refunding Bonds, .45% to 2.60% per annum, due in varying amounts through 2025	1,160,000	(115,000)	1,045,000
2015B Electric System Revenue Refunding Bonds, .55% to 3.00% per annum, due in varying amounts through 2029	2,420,000	(190,000)	2,230,000
2016A Electric System Revenue Refunding Bonds, .80% to 2.80% per annum, due in varying amounts through 2029	-	2,895,000	2,895,000
2016B Electric System Revenue Refunding Bonds, .90% to 3.50% per annum, due in varying amounts through 2036	-	5,090,000	5,090,000
	13,298,071	4,002,884	17,300,955
Less current installments	<u>1,119,651</u>	<u>179,538</u>	<u>1,299,189</u>
	<u>\$12,178,420</u>	<u>\$3,823,346</u>	<u>\$16,001,766</u>

During 2015, the District issued \$3,580,000 in revenue refunding bonds to refund the 2009, 2010A and 2010B bonds, resulting in a net savings over the life of the bonds of \$369,664.

During 2016, the District issued \$2,895,000 in revenue refunding bonds to refund the 2011A bonds, resulting in a net savings over the life of the bonds of \$392,623.

During 2016, the District issued \$5,090,000 in revenue bonds to fund construction projects.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(continued)

6. LONG-TERM DEBT (continued)

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, 2016, approximate principal and interest payments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$1,299,189	\$429,421	\$1,728,610
2018	1,141,766	383,493	1,525,259
2019	1,095,000	369,871	1,464,871
2020	1,125,000	353,727	1,478,727
2021	1,150,000	334,731	1,484,731
2022 – 2026	5,845,000	1,239,072	7,084,072
2027 – 2031	4,120,000	531,388	4,651,388
2032 – 2036	<u>1,525,000</u>	<u>159,840</u>	<u>1,684,840</u>
	<u>\$17,300,955</u>	<u>\$3,801,543</u>	<u>\$21,102,498</u>

7. RETIREMENT PLAN

The Retirement Security Plan (RS Plan) sponsored and administered by the National Rural Electric Cooperative Association (NRECA) is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78.

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.

The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to www.efast.dol.gov and using the search tool (EIN 530116145; PN 333). Copies of the RS Plan's annual financial statements are also available to district representatives by calling NRECA's Member Contact Center at 866.673.2299.

Twenty-three employees of the District participate in the RS Plan. The plan provides for normal retirement at age 62.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(continued)

7. RETIREMENT PLAN (continued)

The District may amend certain terms of the plan, including benefit levels provided for each year of service, normal retirement age, cost-of-living (COLA) adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by individual districts or co-ops (such provisions require approval by the NRECA board of directors). Each district or co-op elects to participate in the plan.

The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average-expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each district or co-op employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level).

The District must contribute annually in accordance with the terms of the RS Plan. The District may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment. The District's required contribution rate is 19.13%. Butler Public Power District's contributions to the RS Plan in 2016 and in 2015 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 \$290,745 in 2016, \$282,195 in 2015. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations. The District can choose to withdraw from the RS Plan, subject to plan provisions that require the District to fully fund its share of RS Plan liabilities before withdrawing.

The District also has 401(K) Plan for its employees. The District's contributions for the years ended December 31, 2016 and 2015 were \$47,340 and \$46,874, respectively.

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 90%. Expenditures for post-retirement health care benefits are recognized when paid. Expenditures for post-retirement health care were \$43,763 in 2016 and \$45,336 in 2015.

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.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(continued)

10. CASH AND INVESTMENTS

As of December 31, 2016, the carrying amount of the District's cash and certificates of deposit, which includes debt reserve funds, was \$4,330,126 and the bank balances were \$5,657,802. Of the bank balances, \$1,000,000 was insured by Federal Depository Insurance and \$7,595,000 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.

Custodial Credit Risk – The amounts pledged by the banks and FDIC insurance were adequate to protect deposits at December 31, 2016. 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, 2016 and 2015, 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.

BUTLER PUBLIC POWER DISTRICT
SCHEDULE OF REQUIRED RS PLAN CONTRIBUTIONS
FOR THE PAST TEN YEARS
DECEMBER 31, 2016

2016	290,745		2011	395,445	
2015	282,195		2010	429,493	Note 3
2014	272,173		2009	247,853	Note 2
2013	315,628	Note 4	2008	221,948	Note 1
2012	399,136		2007	209,004	Note 1

Notes to the Supplementary Schedule

1. Base billing rates were lower than current rates because the plan was overfunded. Increases during this period were primarily the result of a gradual reduction in the plan's surplus. Over time, as surplus assets available to pay contributions diminished, employer contributions were raised.
2. Actual 2007 investment return was lower than the assumed 8.5% expected annual return.
3. Actual 2008 investment return was significantly lower than the 8.5% expected annual return.
4. Actual 2011 investment return was significantly lower than assumed 8.5% expected annual return. The District was able to reduce their obligation by making a prepayment of \$1,229,428 in 2013. This payment is being amortized over 10 years.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Butler Public Power District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Butler Public Power District's basic financial statements, and have issued our report thereon dated March 23, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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. However, material weaknesses may exist that have not been identified.

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.

Purpose of this Report

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

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Fremont, Nebraska
March 23, 2017