

**NEBRASKA 59 BUTLER
BUTLER PUBLIC POWER DISTRICT**

DAVID CITY, NEBRASKA

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

FREEMAN & RIGGS

Certified Public Accountants

FREMONT, NEBRASKA
OMAHA, NEBRASKA

BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

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	<u>Page</u>
Directors, Officers, and Manager	1
Management's Discussion and Analysis	2 – 6
Independent Auditors' Report	7 – 8
Financial Statements	
Statements of Net Position	9
Statements of Revenue and Expense and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 19
Schedule and Notes of Required RS Plan Contributions (Schedule I)	20
Report Required by <u>Government Auditing Standards</u>	21 – 22
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	

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
Daryl Crook	Rising City, NE	Farming
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, 2017. This information is presented in conjunction with the audited basic financial statements, which follow.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017

- The District's assets increased by \$3.2 million or 5.84% from \$54.8 million to \$58.0.
- Operating revenues increased by \$.6 million or 3.19% from \$18.8 million to \$19.4 million.
- Operating expenses increased by \$.7 million or 4.46% from \$15.7 million to \$16.4 million.
- Projects undertaken during the fiscal year ending December 31, 2017:
 - **Transmission Line Projects**
 - Completion of 3 miles of 69Kv Transmission line from Butler's 59-05 Substation (west 1 mile, north 1 mile, then back west 1 mile) to connect to Polk County Public Power District.
 - The new line was constructed and operates at 69Kv. The project included 3 miles of 69Kv transmission line with (1) 69Kv 1-way switch, built with T-2 4/0 ACSR and has 3-phase T-2 1/0 ACSR underbuild on it. This gives Butler PPD another 69Kv transmission source from a NPPD 115Kv substation located outside of Butler's service territory.
 - **Major Distribution Projects**
 - Completion of 2 miles of 1/0 ACSR out of the 59-02 Substation, Circuit (2).
 - This project finished the line upgrade for Circuit (2) out of the 59-02 Substation. It will improve reliability and line losses of our distribution system by retiring old copperweld conductor.
 - Completion of 4 miles of T-2 1/0 ACSR out of the 59-01 Substation, Circuit (3) to the two-way feed of 59-04 Circuit (2) Substation.
 - This project will help with voltage issues during the summer irrigation season. It will lower line losses and increase the reliability to customers on this line.

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, 2017. 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>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Current & Other Assets	10.740	10.492	.248	2.36
Capital Assets, net	48.368	46.209	2.159	4.67
Total Assets	59.108	56.701	2.407	4.25
Long-term Debt	15.822	17.301	-1.479	-8.55
Other Liabilities	2.359	2.091	.268	12.82
Total Liabilities	18.181	19.392	-1.211	-6.24
Net assets invested in Capital assets, net of Related debt	32.259	28.625	3.634	12.70

Net assets restricted				
For debt service	.073	.328	-.255	-77.74
Unrestricted net assets	8.595	8.356	.239	2.86
Total Net Assets	59.108	56.701	2.407	4.25

As the above table indicates, total assets increased by \$2.407 million from \$56.701 million to \$59.108 million during the fiscal year ending December 31, 2017. This is comprised of an increase of \$2.407 million in current assets and an increase of \$2.159 million in capital assets.

Total liabilities reflect a decrease of \$1.211 million. This includes a decrease of \$1.479 million in long-term debt and an increase of \$.268 million in other liabilities.

In addition, net assets invested in capital assets, net of related debt, increased by \$3.634 million while net assets restricted for debt service decreased by \$.255 million.

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

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	19.384	18.809	.575	3.06
Non-Operating Revenue	.624	.157	.467	297.45
Total Revenue	20.008	18.966	1.042	5.49
Depreciation Expense	1.262	1.107	.155	14.00
Other Operating Expenses	14.717	14.136	.581	4.11
Non-Operating Expenses	.411	.493	-.082	-16.63
Total Expenses	16.390	15.736	.654	4.16
Operating Margins	3.618	3.230	.388	12.01
Miscellaneous Items	-1.211	3.750	-4.961	-132.29
Change in Assets	2.407	6.980	-4.573	-65.52
Beginning Net Assets	56.701	49.721	6.980	14.04
Ending Net Assets	59.108	56.701	2.407	4.25

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 \$3.618 million resulted in an increase of \$2.407 million in net assets by the end of the 2017 fiscal year.

Table 2 indicates that the District's revenues increased by \$1.042 million or 5.49 percent to \$20.008 million in the fiscal year that ended December 31, 2017. The increase in revenue was due to a increase in energy sales of \$.575 million from \$18.809 million to \$19.384 million. Increased non-operating revenue by \$.467 million from \$.157 million to \$.624 million. Total expenses increased by \$.654 million or 4.16 percent.

CAPITAL ASSETS

As of December 31, 2017, the District's investment in capital assets totaled \$48.368 million, which is an increase of \$2.159 million or 4.67 percent over the capital asset balance of \$46.209 million as of December 31, 2016.

The District has active construction projects as of December 31, 2017 totaling \$1.571 million as compared to \$7.102 million as of December 31, 2016.

LONG TERM DEBT

As of December 31, 2017, the District had \$15.822 million in outstanding debt compared to \$17.301 million as of December 31, 2016. The outstanding debt includes \$15.765 million in revenue bonds and .057 million due to National Rural Utilities Cooperative Finance Corporation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the District's 2018 Fiscal Year Budget on December 11, 2017. The budget provides funding for the District's operating, capital and debt service costs for the 2018 Fiscal Year. There are a few capital projects that are funded in the budget, including substation, transmission and distribution projects.

Continuing to work on the building of a new substation (located outside of the village) for the Village of Dwight (59-43) 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 out of the NPPD's Wahoo 115Kv Substation. Starting on the west side of Lake Wanahoo and going north $\frac{3}{4}$ mile and west 3 miles. It will be constructed 69Kv and operated at 34.5Kv. The transmission conductor will be T-2 4/0 ACSR, with 1/0 ACSR single phase underbuild. This is the 1st phase of a 3 phase 11 mile project for Butler PPD to provide reliable service to the customers in this area. The adding of a static wire to the transmission line, adds lightning protection.

The distribution line project will be to rebuild 2 miles of 3 phase line out the 59-04 Substation, Circuit (4). It will be built with T-2 1/0 ACSR conductor. This will help with voltage issues during the irrigation season. This project also improves reliability to Butler's customers and lowers line losses.

The AMI "Gridstream" project began in 2015 and is scheduled to be completed by 2020. This project was started due to the degradation of the functionality of our previous Cannon AMI System, as well as the numerous features offered by the newer technology. This new AMI System will allow us to offer better customer service by getting multiple meter reads per day, faster read times and more data points, as well as notifications as soon as a meter loses power to help us repond faster to outages. We are also able to disconnect/reconnect services and program meters from the office, helping minimize truck mileage. In addition to AMI, we will also replace our legacy load control system. This will give us more dependable control with the ability to confirm actual functionality of the control switches.

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, 2017 and 2016, 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, 2017 and 2016, 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 20 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, 2018, 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, 2018

BUTLER PUBLIC POWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Electric plant, at cost (Note 2)	\$58,044,715	\$54,833,612
Less accumulated depreciation	<u>9,526,556</u>	<u>8,474,488</u>
Net electric plant	<u>48,518,159</u>	<u>46,359,124</u>
Investments:		
Investments in other organizations (Note 3)	920,845	523,198
Debt reserve funds (Notes 4 and 10)	<u>72,933</u>	<u>327,793</u>
	<u>993,778</u>	<u>850,991</u>
Current Assets:		
Cash and cash equivalents (Notes 1 and 10)	423,609	222,942
Temporary investments (Notes 4 and 10)	6,096,412	6,083,092
Accounts receivable (Less provision for doubtful accounts of \$34,359 in 2017 and \$33,315 in 2016)	1,659,319	1,658,781
Materials and supplies (Note 1)	826,330	848,527
Prepaid expenses	<u>41,063</u>	<u>23,269</u>
Total current assets	<u>9,046,733</u>	<u>8,836,611</u>
Deferred Outflow of Resources (Note 5)	<u>549,590</u>	<u>654,274</u>
Total Assets	<u>\$59,108,260</u>	<u>\$56,701,000</u>

LIABILITIES AND NET POSITION

Net Position:		
Invested in capital assets, net of related debt	\$32,696,392	\$29,058,169
Restricted for debt service	1,526,581	1,728,610
Unrestricted	<u>6,704,144</u>	<u>6,522,273</u>
Total net position	<u>40,927,117</u>	<u>37,309,052</u>
Long-Term Debt, net of current maturities	<u>14,655,000</u>	<u>16,001,766</u>
Current Liabilities:		
Accounts payable	1,880,293	1,608,076
Consumer deposits and prepayments	202,141	201,216
Accrued expenses	276,942	281,701
Current amount of long-term debt (Note 6)	<u>1,166,767</u>	<u>1,299,189</u>
Total current liabilities	<u>3,526,143</u>	<u>3,390,182</u>
Total Liabilities and Net Position	<u>\$59,108,260</u>	<u>\$56,701,000</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Electric energy sales	\$19,384,070	\$18,809,465
Operating Expenses:		
Cost of power	11,713,572	11,189,924
Distribution	808,697	812,541
Maintenance	1,009,556	942,350
Customer accounts	356,218	360,033
Sales expenses	89,410	113,315
Administration and general	740,144	717,718
Depreciation and amortization	1,261,745	1,106,681
Taxes	<u>992</u>	<u>992</u>
Total operating expenses	<u>15,980,334</u>	<u>15,243,554</u>
Net operating revenue	<u>3,403,736</u>	<u>3,565,911</u>
Non-operating Revenue:		
Interest revenue	84,832	154,373
Other non-operating income	<u>539,349</u>	<u>2,649</u>
Total non-operating revenue	<u>624,181</u>	<u>157,022</u>
Interest – Long-term debt	<u>(409,852)</u>	<u>(492,558)</u>
Net revenue	3,618,065	3,230,375
Net Position, beginning of year	<u>37,309,052</u>	<u>34,078,677</u>
Net Position, end of year	<u>\$40,927,117</u>	<u>\$37,309,052</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, 2017 AND 2016

	2017	2016
<u>Cash Flows from Operating Activities:</u>		
Cash received from customers	\$19,383,532	\$18,512,436
Cash payments to suppliers	(12,635,888)	(13,772,396)
Cash payments to employees	<u>(1,861,338)</u>	<u>(1,919,261)</u>
Net cash provided by operating activities	<u>4,886,306</u>	<u>2,820,779</u>
<u>Cash Flows from Capital and Related Financing:</u>		
Additions to electric plant	(4,702,113)	(6,932,736)
Retirement of electric plant	1,281,333	317,577
Increase in long term debt	2,350,000	7,985,000
Payments on long-term debt	(3,829,188)	(3,982,116)
Interest paid on long-term debt	<u>(409,852)</u>	<u>(492,558)</u>
Net cash provided by capital & related financing	<u>(5,309,820)</u>	<u>(3,104,833)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest income on investments	84,832	154,373
Miscellaneous non-operating revenue	<u>539,349</u>	<u>2,649</u>
Net cash provided from investing activities	<u>624,181</u>	<u>157,022</u>
<u>Net Increase (Decrease) in Cash</u>	200,667	(127,032)
<u>Cash at Beginning of Year</u>	<u>222,942</u>	<u>349,974</u>
<u>Cash at End of Year</u>	<u>\$423,609</u>	<u>\$222,942</u>
<u>Reconciliation of Operating Income and Net Cash Provided from Operating Activities:</u>		
Operating income	\$3,403,736	\$3,565,911
Adjustments to reconcile operating income to net cash provided from operating activities		
Depreciation	1,261,745	1,106,681
Changes in current assets and liabilities		
(Increase) decrease in other organizations	(397,647)	(18,678)
(Increase) decrease in investments	(13,320)	(1,821,832)
(Increase) decrease in receivables	(538)	(297,029)
(Increase) decrease in materials and supplies	22,197	103,580
(Increase) decrease in prepaid expenses	(17,794)	(2,900)
(Increase) decrease in debt reserve funds	254,860	332,000
Increase (decrease) in customer deposits	925	(9,929)
Increase (decrease) in accounts payable	272,217	(208,271)
Increase (decrease) in accrued expenses	(4,759)	(34,576)
(Increase) decrease in deferred outflow of resources	<u>104,684</u>	<u>105,822</u>
Net cash provided by operating activities	<u>\$4,886,306</u>	<u>\$2,820,779</u>

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

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017
(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>2017</u>	<u>2016</u>
Intangible plant	\$1,320	\$1,320
Transmission plant	7,603,843	7,659,750
Distribution plant	37,108,683	35,237,049
General plant	<u>11,759,687</u>	<u>4,833,355</u>
Plant in service	56,473,533	47,731,474
Construction work in progress	<u>1,571,182</u>	<u>7,102,138</u>
	<u>58,044,715</u>	<u>54,833,612</u>
Accumulated depreciation:		
Transmission plant	2,417,640	2,219,229
Distribution plant	3,263,901	2,695,676
General plant	3,861,055	3,584,111
Retirement work in progress	<u>(16,040)</u>	<u>(24,528)</u>
Total	<u>9,526,556</u>	<u>8,474,488</u>
Net electric plant	<u>\$48,518,159</u>	<u>\$46,359,124</u>
Depreciation provisions were as follows:		
Charged to depreciation expense	\$1,261,745	\$1,106,681
Charged to other accounts	<u>173,016</u>	<u>237,762</u>
	<u>\$1,434,761</u>	<u>\$1,344,443</u>

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(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, 2017 and 2016:

	<u>2017</u>	<u>2016</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
Patronage Capital – NRTV	383,527	-
Nebraska Electric Generation and Transmission Cooperative, Inc., membership and patronage Capital credits	41,337	40,642
Other	<u>174,327</u>	<u>160,902</u>
	<u>\$920,845</u>	<u>\$523,198</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 \$6,096,412 at December 31, 2017 and \$6,083,092 at December 31, 2016.

5. DEFERRED OUTFLOWS OF RESOURCES

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, 2017
(continued)

6. LONG-TERM DEBT

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

	2016	Additions (Retirements)	2017
2012 Electric System Revenue Refunding Bonds, .35% to 3.40% per annum, due in varying amounts through 2030	2,705,000	(2,705,000)	-
2013 Electric System Revenue Refunding Bonds, .45% to 4.20% per annum, due in varying amounts through 2028	655,000	(50,000)	605,000
2013 CFC Loan, 2.05% per annum, due in varying amounts through 2018	280,955	(224,188)	56,767
2014 Electric System Revenue Refunding Bonds, .45% to 3.60% per annum, due in varying amounts through 2029	2,400,000	(160,000)	2,240,000
2015A Electric System Revenue Refunding Bonds, .45% to 2.60% per annum, due in varying amounts through 2025	1,045,000	(115,000)	930,000
2015B Electric System Revenue Refunding Bonds, .55% to 3.00% per annum, due in varying amounts through 2029	2,230,000	(200,000)	2,030,000
2016A Electric System Revenue Refunding Bonds, .80% to 2.80% per annum, due in varying amounts through 2029	2,895,000	(190,000)	2,705,000
2016B Electric System Revenue Refunding Bonds, .90% to 3.50% per annum, due in varying amounts through 2036	5,090,000	(185,000)	4,905,000
2017 Electric System Revenue Refunding Bonds, 1.15% to 2.75% per annum, due in varying amounts through 2028	-	2,350,000	2,350,000
	17,300,955	1,479,188	15,821,767
Less current installments	<u>1,299,189</u>	<u>(132,422)</u>	<u>1,166,767</u>
	<u>\$16,001,766</u>	<u>(\$1,346,766)</u>	<u>\$14,655,000</u>

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, 2017
(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, 2017, approximate principal and interest payments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$1,166,767	\$359,814	\$1,526,581
2019	1,120,000	346,444	1,466,444
2020	1,150,000	330,912	1,480,912
2021	1,175,000	312,813	1,487,813
2022	1,200,000	292,025	1,492,025
2023 – 2027	5,915,000	1,063,641	6,978,641
2028 – 2032	2,855,000	387,582	3,242,582
2033 – 2037	<u>1,240,000</u>	<u>109,070</u>	<u>1,349,070</u>
	<u>\$15,821,767</u>	<u>\$3,202,301</u>	<u>\$19,024,068</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.

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-four 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, 2017
(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 19.34%. Butler Public Power District's contributions to the RS Plan in 2017 and in 2016 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 \$312,020 in 2017, \$290,745 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016 contributions. 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.

For 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 RS Plan was over 80% funded on January 1, 2017 and over 80% funded on January 1, 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

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 401(K) Plan for its employees. The District's contributions for the years ended December 31, 2017 and 2016 were \$50,239 and \$47,340, respectively.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(continued)

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 \$46,682 in 2017 and \$43,763 in 2016.

9. POWER SUPPLY CONTRACT

“The District purchases power under a “long-term” wholesale power supply agreement with the Nebraska Electric Generation & Transmission Cooperative, Inc. (NEG&T), which contains an option allowing the District to self-supply up to 10% of the District’s requirements with renewable resources. The agreement is subject to periodic rate reviews, and a related performance standard whereby the District may elect to reduce purchases from NEG&T should wholesale power production rates become greater than a specified level as outlined in wholesale power agreement.”

10. CASH AND INVESTMENTS

As of December 31, 2017, the carrying amount of the District’s cash and certificates of deposit, which includes debt reserve funds, was \$4,078,955 and the bank balances were \$6,511,732. Of the bank balances, \$1,000,000 was insured by Federal Depository Insurance and \$6,070,000 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, 2017. 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, 2017 and 2016, 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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(continued)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain assets and liabilities are presented on our financial statements at fair value. Currently, only cash and cash equivalents are measured at fair value on a recurring basis on the balance sheet. Receivables and current liabilities approximate their fair value because of the near-term maturity of those instruments.

Investments in associated organizations (Note 3) are measured at fair value on a non-recurring basis.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

In determining fair value, the District uses various valuation methodologies and prioritizes the use of observable inputs. The availability of observable inputs varies by instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the marketplace and may require management judgment.

The inputs used to measure fair value are assessed using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 – inputs include quoted prices for identical instruments and are the most observable.

Level 2 – inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.

Level 3 – inputs are not observable in the market and include management’s judgments about the assumptions market participants would use in pricing the asset or liability.

Input Hierarchy of Items Measured as Fair Value on a Non-Recurring Basis

The following tables summarize the fair values by input hierarchy of items measured at fair value on a non-recurring basis for the years ended December 31, 2017 and 2016:

December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Gains/ (Losses)</u>
Investments in associated organizations	\$ -	\$ -	\$523,198	\$523,198	\$ -
December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Gains/ (Losses)</u>
Investments in associated organizations	\$ -	\$ -	\$920,845	\$920,845	\$ -

BUTLER PUBLIC POWER DISTRICT
SCHEDULE OF REQUIRED RS PLAN CONTRIBUTIONS
FOR THE PAST TEN YEARS
DECEMBER 31, 2017

2017	312,020		2012	399,136	
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

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.

At its December 2012, the I&FS Committee of the NRECA Board of Directors approved an option to allow participating districts in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a district's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a district's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the billing rate for most districts is reduced by approximately 25%, retroactive to the January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, unexpected changes in interest rates, asset returns and other plan experience, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period.

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, 2017 and 2016, 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, 2018.

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 that might be significant deficiencies or material weaknesses. Given these limitations, during our audit 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, 2018