

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, 2014 and 2013, 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 24, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2015, 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 Borrowers*, 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 24, 2015

**NEBRASKA 59 BUTLER
BUTLER PUBLIC POWER DISTRICT**

DAVID CITY, NEBRASKA

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

FREEMAN & RIGGS

Certified Public Accountants

FREMONT, NEBRASKA
OMAHA, NEBRASKA

BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

I-N-D-E-X

	<u>Page</u>
Directors, Officers, and Manager	1
Management's Discussion and Analysis	2 – 6
Independent Auditors' Report on Financial Statements and Required Supplementary Information	7 – 8
Financial Statements	
Statements of Net Assets	9
Statements of Revenue and Expense and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 18
Report Required by <u>Government Auditing Standards</u> 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>	19 – 20

BUTLER PUBLIC POWER DISTRICT
DAVID CITY, NEBRASKA

BOARD OF DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Business</u>
Mark Bloyek	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	Insurance CEO
Gary Yindrick	David City, NE	Farming
Gary L. Kucera	Brainard, NE	Farming

OFFICERS, MANAGER AND ATTORNEY

John D. Schmid	President
Gary Yindrick	Vice-President
James E. Papik	Secretary/Attorney
Gary L. Kucera	Treasurer
Gary S. Westphal	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, 2014. This information is presented in conjunction with the audited basic financial statements, which follow.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014

- The District's assets increased by \$3.2 million or 7.8% from \$40.8 million to \$44.0 million.
- Operating revenues decreased by \$.6 million or 3.2% from \$18.8 million to \$18.2 million.
- Operating expenses decreased by \$.2 million or 1.3% from \$15.7 million to \$15.5 million.
- Projects undertaken during the fiscal year ending December 31, 2014:

➤ **Transmission Line Projects**

- Completion of a new 69 kV Transmission Line from the Loma 59-10 substation to Highway 66.
 - This line will be operated at 34.5 kV. The project included (2) 69 kV 3-way switches and new T2-1/0 distribution underbuilt. This new line ties into an existing transmission line that feeds the Village of Valparaiso. The line will put the Loma substation on a loop feed instead of a radial feed, which will improve reliability.

➤ **Major Distribution Projects**

- Circuit (1) out of the David City 59-1 substation was rebuilt for a total of 7 miles, new poles and T2-1/0 conductor was installed.
 - The project intent is to improve voltage issues while back feeding and to improve reliability and line losses. The rebuild was recommended by the District's engineer.
- Circuit (2) out of the Rising City 59-4 substation was rebuilt for a total of 2 miles, new poles and T2-1/0 conductor was installed.
 - Improving reliability and lowering line losses in addition to the voltage issues during irrigation season in the area. The rebuild was recommended by the District's engineer.

- South Circuit out of the Valparaiso 59-46 substation was extended for 1 mile, new poles and T2-1/0 conductor was installed.
 - The above project is the first step of two, which will tie into circuit 3 out of the Loma 59-10 substation. The Loma circuit is currently on a radial feed, this project is aimed at improving reliability and line losses.

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 Districts revenues and expenses for the fiscal year ended December 31, 2014. 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>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Current & Other Assets	11.667	10.947	.720	6.58
Capital Assets, net	36.341	35.097	1.244	3.54
Total Assets	48.008	46.044	1.964	4.27
Long-term Debt	14.359	15.642	-1.283	-8.20
Other Liabilities	2.145	1.803	.342	18.97
Total Liabilities	16.504	17.445	-.941	-5.39

Net assets invested in Capital assets, net of Related debt	21.753	19.220	2.533	13.18
Net assets restricted For debt service	1.101	1.334	-.233	-17.47
Unrestricted net assets	8.650	8.045	.605	7.52
Total Net Assets	48.008	46.044	1.964	4.27

As the above table indicates, total assets increased by \$1.964 million from \$46.044 million to \$48.008 million during the fiscal year ending December 31, 2014. This is comprised of an increase of \$.720 million in current assets and an increase of \$1.244 million in capital assets.

Total liabilities reflect a decrease of \$.941 million. This includes an decrease of \$1.283 million in long-term debt and an increase of \$.342 million in other liabilities.

In addition, net assets invested in capital assets, net of related debt, increased by \$2.533 million while net assets restricted for debt service decreased by \$.233 million.

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

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	18.201	18.830	-.629	-3.34
Non-Operating Revenue	.198	.239	-.041	-17.15
Total Revenue	18.399	19.069	-.670	-3.51
Depreciation Expense	.951	.978	-.027	-2.76
Other Operating Expenses	14.005	14.148	-.143	-1.01
Non-Operating Expenses	.550	.570	-.020	-3.51
Total Expenses	15.506	15.696	-.190	-1.21
Operating Margins	2.892	2.911	-.019	-.65
Miscellaneous Items	-.982	.781	-.147	-18.82
Extraordinary Items	0.000	-.462	-.462	-100.00
Change in Assets	1.964	3.230	-1.266	-39.20
Beginning Net Assets	46.044	42.814	3.230	7.54
Ending Net Assets	48.008	46.044	1.964	4.27

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 \$2.892 million resulted in an increase of \$1.964 million in net assets by the end of the 2014 fiscal year.

Table 2 indicates that the District's revenues decreased by \$.670 million or 3.51 percent to \$18.399 million in the fiscal year that ended December 31, 2014. The decrease in revenue was due to a decrease in energy sales of \$.629 million from \$18.830 million to \$18.201 million. Decreased non-operating revenue by \$.041 million from \$.239 million to \$.198 million. Total expenses decreased by \$.190 million or 1.21 percent.

CAPITAL ASSETS

As of December 31, 2014, the District's investment in capital assets totaled \$36.342 million, which is an increase of \$1.245 million or 3.55 percent over the capital asset balance of \$35.097 million as of December 31, 2013.

The District's has active construction projects as of December 31, 2014 totaling \$1.244 million as compared to \$2.151 million as of December 31, 2013.

LONG TERM DEBT

As of December 31, 2014, the District had \$14.359 million in outstanding debt compared to \$15.642 million as of December 31, 2013. The outstanding debt includes \$.818 million less payments unapplied of .629 million due to Rural Utility Services and \$13.455 million in revenue bonds and .716 million due to CFC.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the District's 2015 Fiscal Year Budget on December 10, 2014. The budget provides funding for the District's operating, capital and debt service costs for the 2015 Fiscal Year. Several capital projects are funded in the budget including Transmission, Distribution and Substation projects.

The Transmission line project will be 5 miles of 69 kV line that will be operated at 34.5 kV. This is an existing line that ran through the Village of Bruno to the 59-42 substation and then continued on to the Abie 59-40 substation. With this project we will change the route of the transmission line to go around the outside of the Village of Bruno. We will be building a new substation between the two villages and retiring the old substations in both Bruno and Abie. The building of the new Substation will take care of safety concerns dealing with clearances in both village substations. The new sub will also take some load off the Rural Abie 59-12 substation and give circuit (4) another back feed while increasing reliability to the customers in both Bruno, Abie and the surrounding area. Of the 5 miles of transmission line 3 miles will be rebuilt adding a static wire for lightning protection and 2 new miles will be constructed to go around the Village of Bruno. The transmission line will have 3 miles that will have 1/0 under build on it, feeding the Village of Bruno. The under built line back to Bruno will also take the Bruno well off of a radial feed. This project will increase reliability for our customers and take care of safety concerns for our lineman.

The Distribution projects include; south circuit out of the Valparaiso 59-46 substation, build 2.5 miles of three phase line to tie into circuit 3 out of the Loma 59-10 substation. This project will eliminate the radial feed for circuit 3 out of the Loma 59-10 substation as well as lowering line losses and making the system more reliable. Circuit (2) out of the Prague 59-2 substation will be rebuilt for 1.75 miles. This project will lower line losses and increase reliability. Circuit (3) out of the Prague 59-2 substation will be rebuilt for 2 miles. This project will lower line losses and increase reliability. Finally .5 mile of double circuit will be built out of the new substation between Bruno and Abie. This project will increase reliability to our customers in both villages and the surrounding area.

District Facility Plans

The Board has approved construction of a new office headquarter facility on the existing David City property to replace the present facility built in 1960/61. The new facility will resolve the following concerns. Service vehicles are growing in size and the available indoor parking space is insufficient. The spare parts storage has required the construction of a mezzanine storage area due to lack of space and that is inefficient for personnel access. Also the existing facility doesn't have room to take advantage of the technological advances which can allow for more efficient operations. To top this off, security concerns of office personnel, equipment, computers, and information has become a severe threat to future operations.

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 balance sheets of Butler Public Power District as of December 31, 2014 and 2013, 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2015, 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.

OTHER MATTERS

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 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.

FREEMAN & RIGGS
CERTIFIED PUBLIC ACCOUNTANTS

Fremont, Nebraska
March 24, 2015

BUTLER PUBLIC POWER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
Electric plant, at cost (Note 2)	\$43,963,061	\$40,824,465
Less accumulated depreciation	<u>7,471,597</u>	<u>5,577,312</u>
Net electric plant	<u>36,491,464</u>	<u>35,247,153</u>
Investments:		
Investments in other organizations (Note 3)	484,070	466,625
Debt reserve funds (Notes 4 and 10)	<u>1,101,493</u>	<u>1,334,492</u>
	<u>1,585,563</u>	<u>1,801,117</u>
Current Assets:		
Cash and cash equivalents (Notes 1 and 10)	382,453	254,805
Temporary investments (Notes 4 and 10)	6,189,919	4,573,235
Accounts receivable (Less provision for doubtful accounts of \$32,061 in 2014 and \$28,706 in 2013)	1,494,520	2,068,048
Materials and supplies (Note 1)	979,869	1,116,405
Prepaid expenses	<u>18,141</u>	<u>11,689</u>
Total current assets	<u>9,064,902</u>	<u>8,024,182</u>
Deferred Outflow of Resources (Note 5)	<u>865,775</u>	<u>971,501</u>
Total Assets	<u>\$48,007,704</u>	<u>\$46,043,953</u>

LIABILITIES AND NET POSITION

Net Position:		
Invested in capital assets, net of related debt	\$22,132,025	\$19,605,022
Restricted for debt service	1,552,233	1,577,061
Unrestricted	<u>7,763,012</u>	<u>7,373,101</u>
Total net position	<u>31,447,270</u>	<u>28,555,184</u>
Long-Term Debt, net of current maturities	<u>13,247,234</u>	<u>14,581,282</u>
Current Liabilities:		
Accounts payable	1,726,581	1,378,838
Consumer deposits and prepayments	199,926	198,231
Accrued expenses	274,488	269,569
Current amount of long-term debt (Note 6)	<u>1,112,205</u>	<u>1,060,849</u>
Total current liabilities	<u>3,313,200</u>	<u>2,907,487</u>
Total Liabilities and Net Position	<u>\$48,007,704</u>	<u>\$46,043,953</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenue:		
Electric energy sales	\$18,200,684	\$18,829,850
Operating Expenses:		
Cost of power	11,301,500	11,173,950
Distribution	743,682	916,920
Maintenance	872,104	909,324
Customer accounts	313,458	343,328
Sales expenses	82,972	115,254
Administration and general	691,803	689,293
Depreciation and amortization	951,266	977,827
Taxes	<u>5,712</u>	<u>992</u>
Total operating expenses	<u>14,962,497</u>	<u>15,126,888</u>
Net operating revenue	<u>3,238,187</u>	<u>3,702,962</u>
Non-operating Revenue:		
Interest revenue	85,576	126,865
Other non-operating income	<u>112,228</u>	<u>112,462</u>
Total non-operating revenue	<u>197,804</u>	<u>239,327</u>
Interest – Long-term debt	<u>(543,905)</u>	<u>(569,258)</u>
Net revenue before extraordinary expense	2,892,086	3,373,031
Extraordinary expense due to GASB 65	<u>-</u>	<u>462,487</u>
Net revenue after extraordinary expense	2,892,086	2,910,544
Net Position, beginning of year	<u>28,555,184</u>	<u>25,644,640</u>
Net Position, end of year	<u>\$31,447,270</u>	<u>\$28,555,184</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, 2014 AND 2013

	2014	2013
<u>Cash Flows from Operating Activities:</u>		
Cash received from customers	\$18,774,212	\$18,146,009
Cash payments to suppliers	(13,124,810)	(11,474,714)
Cash payments to employees	<u>(1,697,384)</u>	<u>(1,730,822)</u>
Net cash provided by operating activities	<u>3,952,018</u>	<u>4,940,473</u>
<u>Cash Flows from Capital and Related Financing:</u>		
Additions to electric plant	(6,102,538)	(4,202,621)
Retirement of electric plant	3,906,961	224,074
Increase in long term debt	2,715,000	1,830,480
Payments on long-term debt	(3,997,692)	(1,745,183)
Interest paid on long-term debt	(543,905)	(569,258)
Extraordinary expense due to FASB65	<u>-</u>	<u>(462,487)</u>
Net cash provided by capital & related financing	<u>(4,022,174)</u>	<u>(4,924,995)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest income on investments	85,576	126,865
Miscellaneous non-operating revenue	<u>112,228</u>	<u>112,462</u>
Net cash provided from investing activities	<u>197,804</u>	<u>239,327</u>
<u>Net Increase (Decrease) in Cash</u>	127,648	254,805
<u>Cash at Beginning of Year</u>	<u>254,805</u>	<u>-</u>
<u>Cash at End of Year</u>	<u>\$382,453</u>	<u>\$254,805</u>
<u>Reconciliation of Operating Income and Net Cash Provided from Operating Activities:</u>		
Operating income	\$3,238,187	\$3,702,962
Adjustments to reconcile operating income to net cash provided from operating activities		
Depreciation	951,266	977,827
Changes in current assets and liabilities		
(Increase) decrease in other organizations	(17,445)	(18,315)
(Increase) decrease in investments	(1,616,684)	1,158,116
(Increase) decrease in receivables	573,528	(683,841)
(Increase) decrease in materials and supplies	136,536	116,306
(Increase) decrease in prepaid expenses	(6,452)	2,371
(Increase) decrease in debt reserve funds	232,999	(4,932)
Increase (decrease) in customer deposits	1,695	25,799
Increase (decrease) in accounts payable	347,743	125,864
Increase (decrease) in accrued expenses	4,919	12,048
(Increase) decrease in deferred debits	<u>105,726</u>	<u>(473,732)</u>
Net cash provided by operating activities	<u>\$3,952,018</u>	<u>\$4,940,473</u>

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

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014
(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).

2. ELECTRIC PLANT

The major classes of electric plant are as follows:

	<u>2014</u>	<u>2013</u>
Intangible plant	\$1,320	\$1,320
Transmission plant	6,401,406	6,217,529
Distribution plant	31,371,642	27,786,933
General plant	<u>4,944,230</u>	<u>4,667,428</u>
Plant in service	42,718,598	38,673,210
Construction work in progress	<u>1,244,463</u>	<u>2,151,255</u>
	<u>43,963,061</u>	<u>40,824,465</u>
Accumulated depreciation:		
Transmission plant	1,944,471	1,919,704
Distribution plant	1,884,755	241,321
General plant	3,645,075	3,378,625
Retirement work in progress	<u>(2,704)</u>	<u>37,662</u>
Total	<u>7,471,597</u>	<u>5,577,312</u>
Net electric plant	<u>\$36,491,464</u>	<u>\$35,247,153</u>

Depreciation provisions were as follows:

Charged to depreciation expense	\$951,266	\$977,827
Charged to other accounts	<u>185,925</u>	<u>186,786</u>
	<u>\$1,137,191</u>	<u>\$1,164,613</u>

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014
(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, 2014 and 2013:

	<u>2014</u>	<u>2013</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	36,948	39,366
Other	<u>125,468</u>	<u>105,605</u>
	<u>\$484,070</u>	<u>\$466,625</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 \$6,189,919 at December 31, 2014 and \$4,573,235 at December 31, 2013.

5. DEFERRED DEBITS

Deferred debits 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 debit is being amortized over 10 years beginning in May 2013.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014
(continued)

6. LONG-TERM DEBT

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

	2013	Additions (Retirements)	2014
5.0% RUS construction notes, due in varying amounts through 2016	510,470	(321,843)	188,627
2009A Electric System Revenue Refunding Bonds, 1.25% to 5.00% per annum, due in varying amounts through 2026	200,000	(45,000)	155,000
2009B Electric System Revenue Refunding Bonds, 1.65% to 2.80% per annum, due in varying amounts through 2015	190,000	(95,000)	95,000
2009C Electric System Revenue Bonds, 1.00% to 4.50% per annum, due in varying amounts through 2029	2,795,000	(2,795,000)	-
2010A Electric System Revenue Refunding Bonds, .90% to 4.10% per annum, due in varying amounts through 2025	1,315,000	(75,000)	1,240,000
2010B Electric System Revenue Refunding Bonds, .85% to 4.40% per annum, due in varying amounts through 2030	2,430,000	(100,000)	2,330,000
2011A Electric System Revenue Bonds, .65% to 4.70 per annum, due in varying amounts through 2031	3,240,000	(135,000)	3,105,000
2012 Electric System Revenue Refunding Bonds, .35% to 3.40% per annum, due in varying amounts through 2030	3,235,000	(175,000)	3,060,000
2013 Electric System Revenue Refunding Bonds, .45% to 4.20% per annum, due in varying amounts through 2028	800,000	(45,000)	755,000
2013 CFC Loan, 2.05% per annum, due in varying amounts through 2018	926,661	(210,849)	715,812
2014 Electric System Revenue Refunding Bonds, .45% to 3.60% per annum, due in varying amounts through 2029	-	2,715,000	2,715,000
	15,642,131	(1,282,692)	14,359,439
Less current installments	<u>1,060,849</u>	<u>51,356</u>	<u>1,112,205</u>
	<u>\$14,581,282</u>	<u>(\$1,334,048)</u>	<u>\$13,247,234</u>

During 2014, the District issued \$2,715,000 in revenue refunding bonds to refund the 2009c bonds, resulting in a net savings over the life of the bonds of \$396,164.

During 2013, the District issued \$800,000 in revenue refunding bonds to refund the 2008 bonds, resulting in a net savings over the life of the bonds of \$105,554.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014
(continued)

6. LONG-TERM DEBT (continued)

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

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

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

As of December 31, 2014, approximate principal and interest payments are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$1,112,205	\$440,028	\$1,552,233
2016	1,048,651	417,490	1,466,141
2017	1,020,189	397,140	1,417,329
2018	848,394	376,320	1,224,714
2019	780,000	357,851	1,137,851
Thereafter	<u>9,550,000</u>	<u>2,143,833</u>	<u>11,693,833</u>
	<u>\$14,359,439</u>	<u>\$4,132,662</u>	<u>\$18,492,101</u>

7. RETIREMENT PLAN

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

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

Butler Public Power Districts' contributions to the RS Plan in 2014 and in 2013 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 \$272,173 in 2014, \$315,628 in 2013. Plan members become fully vested after five years of service.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2014 and January 1, 2013 based on the PPA funding target and PPA actuarial value of assets on those dates.

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014
(continued)

7. RETIREMENT PLAN (continued)

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

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

	2014	2013
Total payroll	\$1,697,384	\$1,730,822
Employee contributions	112,212	109,551
Employer contributions	44,614	45,870

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

8. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the District provides post-retirement health care benefits (the Plan) to all full-time employees hired prior to 1994, who retire after age 62. The District will contribute 2% of the monthly health insurance premium to the Plan for each retiree for each year of service to a maximum of 90%. Expenditures for post-retirement health care benefits are recognized when paid. Expenditures for post-retirement health care were \$55,494 in 2014 and \$48,834 in 2013.

9. POWER SUPPLY CONTRACT

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

10. CASH AND INVESTMENTS

As of December 31, 2014, the carrying amount of the District’s cash and certificates of deposit, which includes debt reserve funds, was \$4,670,866 and the bank balances were \$4,765,965. Of the bank balances, \$750,000 was insured by Federal Depository Insurance and \$7,384,895 was covered by securities held by agents of the depositories in the District’s name in the form of joint safekeeping receipts. State law required all funds in depositories to be fully insured or collateralized.

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

BUTLER PUBLIC POWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014
(continued)

10. CASH AND INVESTMENTS (continued)

Custodial Credit Risk – The amounts pledged by the banks and FDIC insurance were adequate to protect deposits at December 31, 2014. 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, 2014 and 2013, the District had a line of credit of \$1,500,000 of which none is being used, with the National Rural Utilities Cooperative Finance Corporation, Herndon, Virginia. The line of credit renews automatically each year.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Directors
Butler Public Power District
David City, Nebraska

We have audited the financial statements of Butler Public Power District as of and for the years ended December 31, 2014 and 2013 and have issued our report thereon dated March 24, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 24, 2015