Municipal Energy Agency of Nebraska

Independent Auditor's Report and Financial Statements

March 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Municipal Energy Agency of Nebraska
March 31, 2014 and 2013

Contents

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Independent Auditor's Report

Board of Directors
Municipal Energy Agency of Nebraska
Lincoln, Nebraska

We have audited the accompanying basic financial statements of Municipal Energy Agency of Nebraska, which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Energy Agency of Nebraska as of March 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 inquiries 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.

BKD, LLP

Lincoln, Nebraska
July 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis on the following pages summarizes the financial highlights and focuses on factors that had a material effect on the financial condition of Municipal Energy Agency of Nebraska (MEAN) and the results of operations for the years ended March 31, 2014, 2013 and 2012. This discussion should be read in conjunction with the accompanying financial highlights, the basic financial statements and notes to the financial statements.

Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about MEAN's financial position and activities.

Management Discussion and Analysis – provides an objective and easily readable analysis of the financial activities of MEAN based on currently known facts, decisions or conditions.

Balance Sheets – provides a summary of the assets, deferred outflows of resources, liabilities and deferred inflows of resources and net position.

Statements of Revenues, Expenses and Changes in Net Position – presents the operating results of MEAN into various categories of operating revenues and expenses and non-operating revenues and expenses.

Statements of Cash Flows – reports the cash provided by and used for operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

Notes to the Financial Statements – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Financial Analysis

The following comparative condensed financial statements summarize MEAN's financial position and operating results for the years ended March 31, 2014, 2013 and 2012.

Condensed Balance Sheets and Financial Highlights

	March 31, 2014	March 31, 2013	March 31, 2012	Change 2014 to 2013	Change 2013 to 2012
Assets and Deferred Outflows of Resources					
Current assets	$ 54,096,808	$ 40,126,952	$ 34,808,321	$ 13,969,856	$ 5,318,631
Restricted and long-term investments	25,486,842	40,445,748	27,583,885	(14,958,906)	12,861,863
Capital assets and productive capacity	147,202,920	153,731,658	157,652,565	(6,528,738)	(3,920,907)
Other noncurrent assets	43,965,465	40,869,548	31,299,675	3,095,917	9,569,873
Deferred outflows of resources	4,430,491	5,217,132	5,958,002	(786,641)	(740,870)
Total assets and deferred outflows of resources	$ 275,182,526	$ 280,391,038	$ 257,302,448	$ (5,208,512)	$ 23,088,590
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 21,980,069	$ 26,509,089	$ 14,377,722	$ (4,529,020)	$ 12,131,367
Long-term debt, net	184,996,316	188,472,438	173,227,809	(3,476,122)	15,244,629
Deferred inflows of resources	21,369,680	19,746,516	17,327,710	1,623,164	2,418,806
Net position					
Net investment in capital assets	12,357,646	13,842,189	25,868,803	(1,484,543)	(12,026,614)
Restricted for debt service	6,169,409	6,169,409	6,159,963	-	9,446
Unrestricted	28,309,406	25,651,397	20,340,441	2,658,009	5,310,956
Total net position	46,836,461	45,662,995	52,369,207	1,173,466	(6,706,212)
Total liabilities, deferred inflows of resources and net position	$ 275,182,526	$ 280,391,038	$ 257,302,448	$ (5,208,512)	$ 23,088,590

Assets and Deferred Outflows of Resources

Current assets increased in 2014 and 2013 primarily due to increased cash and cash equivalents and short-term investments.

During 2014, construction funds were used to pay for qualifying expenditures resulting in a decrease in restricted and long-term investments at March 31, 2014. Restricted and long-term investments increased at March 31, 2013 as a result of the Power Supply System Revenue and Refunding Bonds, Series 2013A and B transaction completed in March 2013.

Depreciation charges exceeded additions to productive capacity as shown in Note 3 in both 2014 and 2013 resulting in an overall decrease in capital assets and productive capacity. MEAN's investment in productive capacity consists primarily of its ownership interest in two power generation plants: 1) a 6.92% ownership interest in the Walter Scott, Jr. Energy Center Unit 4 (WSEC 4) generation plant, located near Council Bluffs, Iowa and 2) a 23.5% ownership interest in the Wygen Unit I (Wygen I) generation plant, located near Gillette, Wyoming. Capital assets include MEAN's operations and management facility and furniture, fixtures and equipment.

The increase in other noncurrent assets in 2014 and 2013 is due to the deferral of certain costs permitted under the regulated operations provisions of Governmental Accounting Standards Board (GASB) Statement No. 62.

Deferred outflows of resources consist of deferred costs of refunded debt resulting from refunding transactions. The decline in each year resulted from annual amortization.

Liabilities and Deferred Inflows of Resources

The decrease in current liabilities in 2014 resulted from timing of when invoices were received and paid and payment of the Southwest Power Pool, Inc. (SPP) settlement in 2014. Current liabilities increased in 2013 due to timing of when invoices were received and paid. In addition, current liabilities in 2013 included approximately $6.3 million for the accrual of the SPP settlement payment. See Note 13 for additional information.

Net long-term debt declined in 2014 as principal payments were paid and no bond financing transactions occurred. In March 2013, MEAN issued Power Supply System Revenue Refunding Bonds, Series 2013 A and B resulting in an increase in net long-term debt.

Deferred inflows of resources consist of deferred revenue – rate stabilization which fluctuates as a result of activity in the Rate Stabilization Fund which is described further in "Risk Management Practices".

Debt Activity

In 2014, MEAN did not issue any debt and made scheduled principal payments of $2,785,000.

In March 2013, MEAN issued Power Supply System Revenue and Refunding Bonds, Series 2013 A in the amount of $32,430,000. Funds were used to refund $23,165,000 of outstanding 2003 Series A bonds, provide funds for the proposed settlement with SPP (see Note 13) and fund the costs of planned capital additions, improvements and replacements to MEAN's interests in Laramie River Station, WSEC 4 and Wygen I. MEAN also issued Power Supply System Revenue Bonds, Series 2013 B (Federally Taxable) in March 2013. Funds were used to reimburse MEAN for a portion of the cost of construction of MEAN's operations and management facility and for the cost of acquisition of an additional 0.25% undivided ownership interest in WSEC 4 purchased in 2012.

In February 2012, MEAN issued Power Supply System Revenue Refunding Bonds in the amount of $63,870,000 to advance refund $60,140,000 of outstanding 2003 Series A bonds and current refund $13,880,000 of outstanding 2002 Series A Bonds.

Debt Ratings and Debt Service Coverage

During the bond issuance process, Standard and Poor's (S&P) and Fitch assigned A/stable ratings, to the 2013 bonds. Additionally, the agencies affirmed these ratings on MEAN's other outstanding debt. These high ratings indicate the agencies' assessment of MEAN's ability to pay interest and principal on its debt based on MEAN's financial strength and business characteristics as a public power provider.

MEAN is required by its bond covenants to maintain a debt service coverage of 1.0 times. Debt service coverage was 1.21, 1.14, and 1.43 for 2014, 2013, and 2012 respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position and Financial Highlights

	March 31,			Change 2014	Change 2013
	2014	2013	2012	to 2013	to 2012
Sales volumes (MWh's)	2,762,000	2,731,000	3,001,000	31,000	(270,000)
Electric energy sales and other operating revenues	$ 148,482,575	$ 139,106,205	$ 137,561,145	$ 9,376,370	$ 1,545,060
Transfer from (provision for) rate stabilization	(1,623,164)	(2,418,806)	2,026,290	795,642	(4,445,096)
Total operating revenues	146,859,411	136,687,399	139,587,435	10,172,012	(2,900,036)
Electric energy costs	127,638,949	125,426,889	123,041,934	2,212,060	2,384,955
Other operating expenses	14,245,984	13,317,096	12,603,337	928,888	713,759
Total operating expenses	141,884,933	138,743,985	135,645,271	3,140,948	3,098,714
Operating income (loss)	4,974,478	(2,056,586)	3,942,164	7,031,064	(5,998,750)
Net nonoperating expenses	(3,801,012)	(4,649,626)	(5,538,884)	848,614	889,258
Increase (decrease) in net position	$ 1,173,466	$ (6,706,212)	$ (1,596,720)	$ 7,879,678	$ (5,109,492)

Sales Volumes and Operating Revenues

MWh's delivered in 2014 increased 1% compared to 2013. MWh's delivered in 2013 decreased 9% compared to 2012.

In 2014, electric energy sales revenues from MEAN's total requirements participants increased as a result of increased MWh's delivered, rate increases implemented in 2014 and pooled energy adjustments resulting from actual monthly energy costs in excess of budgeted monthly energy costs. Revenues from service power and interchange sales also increased in 2014. In 2013, electric energy sales revenues from MEAN's total requirements participants increased as a result of rate increases implemented and included approximately $6.3 million of revenues from contract receivables related to the SPP settlement. The increased revenues from total requirements participants was offset by lower electric energy sales revenues from service schedule participants and reduced interchange sales. See Notes 8 and 13 for additional information.

For 2014, the Board of Directors authorized the provision of $1,623,164 into the rate stabilization fund. For 2013, the Board of Directors authorized the transfer of $3,868,000 from the rate stabilization fund. A provision for rate stabilization of approximately $6.3 million was recorded as a result of electric energy sales revenue resulting from the proposed settlement with SPP. See Notes 8 and 13 for additional information. The net provision for rate stabilization in 2013 was $2,418,806. For 2012, the Board of Directors authorized the transfer of $5,026,290 from the rate stabilization fund and a year end provision for rate stabilization into the fund of $3,000,000 resulting in a net transfer from the rate stabilization fund of $2,026,290.

Operating Expenses

Electric energy costs vary from year to year due to changes in demand for energy by members, participants and other buying entities. Increased electric energy costs in 2014 relate primarily to the increased cost per MWh of market energy purchases. Electric energy costs in 2013 include approximately $6.3 million of transmission costs related to the proposed settlement with SPP. See Notes 9 and 13 for additional information.

General Trends and Significant Events

MEAN participates in SPP's Integrated Marketplace which launched on March 1, 2014. This market expansion is the latest and most complex step in SPP's approach to adding market functionality that will coordinate next-day generation across the region. SPP expects the Integrated Marketplace to maximize cost-effectiveness, provide participants with greater access to reserve energy, improve regional balancing of electricity supply and demand, and facilitate the integration of renewable resources.

MEAN joined together with four other public power entities to form the Public Power Generation Agency (PPGA), a non-profit governmental entity formed under the Nebraska Interlocal Cooperation Act. PPGA developed, constructed and is operating the Whelan Energy Center Unit 2 (WEC 2), a 220 MW coal-fired generating unit. WEC 2 is operated under Best Available Control Technology standards. WEC 2 was built adjacent to the existing 77 MW Whelan Energy Center Unit 1 near Hastings, Nebraska. WEC 2 began commercial operations on May 1, 2011.

MEAN's coal fired generation units, WSEC 4 and Wygen I, are also equipped with current Best Available Control Technology that combines lowest emissions with a long-term baseload energy resource.

MEAN continues to monitor the development and implementation of new or modified environmental regulations. See Note 12 for additional information.

MEAN has 10.5 MW's of wind energy generated from its wind farm located near Kimball, Nebraska. MEAN has also contracted for the purchase of 37 MW's of wind energy from other wind energy producers in the region. With these contracts, wind represents 6.5% of MEAN's total requirements participants' energy needs. In addition to the wind energy, MEAN has contracted for 4.8 MW's fueled by landfill gas from Waste Management Des Moines Landfill Gas Facility which began commercial operations March 2014.

MEAN continues to review renewable energy projects that are of strategic interest. The federal stimulus activity and renewable energy proposals and directives have resulted in challenging dynamics to satisfy member and legislative requirements.

Risk Management Practices

MEAN is subject to various risks inherent in the electric energy business, including market risk, operating risk, regulatory and political risks, credit risk, interest risk and insurance risk.

As a means of identifying, measuring, managing and mitigating these various risks, MEAN has developed financial and operating policies and guidelines, which have been approved by the Board of Directors.

One of MEAN's management tools was the creation of a Rate Stabilization Account, within the General Reserve Fund, as a means of maintaining stable electric rates for its member communities. This funded reserve is intended to minimize the impact on rates from significant occurrences such as the loss of generation capacity or periods of high replacement power costs. In 2014 and 2013, there were net transfers into the Rate Stabilization Account of $1,623,164 and $2,418,806, respectively.

As a means of stabilizing its rate structure, MEAN has elected to defer certain costs related to its investment in WSEC 4, Wygen I and Laramie River Station generating plants as allowed under the regulated operations provisions of GASB Statement No. 62. These costs, primarily depreciation and bond issue costs, will be charged to expense in future years.

Report Purpose and Contact Information

This financial report is designed to provide member municipalities, other non-member participants and creditors with a general overview of MEAN's financial status for 2014, 2013 and 2012. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Accounting at 8377 Glynoaks Dr., Lincoln, Nebraska 68516.

Municipal Energy Agency of Nebraska

Balance Sheets

March 31, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 21,842,081	$ 12,956,352
Short-term investments	7,009,635	8,679,436
Accounts receivable	21,960,154	15,225,714
Prepaid expenses and other	539,597	457,989
Productive capacity operating assets	2,745,341	2,807,461
Total current assets	54,096,808	40,126,952
Noncurrent Assets		
Long-term investments	9,569,028	10,158,164
Restricted investments	15,917,814	30,287,584
Contracts receivable	5,255,828	6,298,241
Productive capacity, net	140,727,110	147,062,820
Capital assets, net	6,475,810	6,668,838
Costs recoverable from future billings	38,709,637	34,571,307
Total noncurrent assets	216,655,227	235,046,954
Deferred Outflows of Resources		
Deferred cost of refunded debt	4,430,491	5,217,132
Total assets and deferred outflows of resources	$ 275,182,526	$ 280,391,038
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 2,855,000	$ 2,785,000
Accounts payable and accrued expenses	14,857,319	20,184,856
Accrued interest payable	4,267,750	3,539,233
Total current liabilities	21,980,069	26,509,089
Long-term Debt, Net	184,996,316	188,472,438
Deferred Inflows of Resources		
Deferred revenue - rate stabilization	21,369,680	19,746,516
Net Position		
Net investment in capital assets	12,357,646	13,842,189
Restricted for debt service	6,169,409	6,169,409
Unrestricted	28,309,406	25,651,397
Total net position	46,836,461	45,662,995
Total liabilities, deferred inflows of resources and net position	$ 275,182,526	$ 280,391,038

Municipal Energy Agency of Nebraska

Statements of Revenues, Expenses and Changes in Net Position

Years Ended March 31, 2014 and 2013

	2014	2013
Operating Revenues		
Electric energy sales	$ 147,991,266	$ 138,614,147
Provision for rate stabilization	(1,623,164)	(2,418,806)
Other	491,309	492,058
Total operating revenues	146,859,411	136,687,399
Operating Expenses		
Electric energy costs	127,638,949	125,426,889
Administrative and general	5,578,203	5,146,733
Depreciation and amortization	8,667,781	8,170,363
Total operating expenses	141,884,933	138,743,985
Operating Income (Loss)	4,974,478	(2,056,586)
Nonoperating Revenues (Expenses)		
Net costs to be recovered in future periods	4,138,330	3,337,883
Investment return	126,227	368,301
Interest expense	(8,535,500)	(8,222,686)
Bond issuance costs expense	-	(381,435)
Amortization of deferred cost of refunded debt	(165,519)	(236,863)
Other	635,450	485,174
Net nonoperating expenses	(3,801,012)	(4,649,626)
Increase (Decrease) in Net Position	1,173,466	(6,706,212)
Net Position, Beginning of Year	45,662,995	52,369,207
Net Position, End of Year	$ 46,836,461	$ 45,662,995

Municipal Energy Agency of Nebraska

Statements of Cash Flows

Years Ended March 31, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from participants and customers	$ 165,146,194	$ 157,721,863
Cash paid to suppliers	(157,017,938)	(142,124,459)
Cash paid to coalition members	(3,901,885)	(3,951,310)
Net cash provided by operating activities	4,226,371	11,646,094
Noncapital Financing Activities, Other Nonoperating Receipts	635,450	485,174
Capital and Related Financing Activities		
Principal payments on long-term debt	(2,785,000)	(1,235,000)
Proceeds from issuance of long-term debt	-	18,953,089
Transfer to bond refunding agent	-	(800,888)
Additions of productive capacity	(1,950,201)	(1,516,260)
Purchase of capital assets	(188,842)	(2,733,196)
Interest paid	(7,806,983)	(7,684,038)
Net cash provided by (used in) capital and related financing activities	(12,731,026)	4,983,707
Investing Activities		
Interest received on investments	379,239	476,046
Purchases of investments	(47,397,501)	(48,733,446)
Proceeds from sales and maturities of investments	63,773,196	33,657,271
Net cash provided by (used in) investing activities	16,754,934	(14,600,129)
Increase in Cash and Cash Equivalents	8,885,729	2,514,846
Cash and Cash Equivalents, Beginning of Year	12,956,352	10,441,506
Cash and Cash Equivalents, End of Year	$ 21,842,081	$ 12,956,352

Municipal Energy Agency of Nebraska
Statements of Cash Flows - Continued
Years Ended March 31, 2014 and 2013

	2014	2013
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 4,974,478	$ (2,056,586)
Depreciation and amortization	8,667,781	8,170,363
Provision for rate stabilization	1,623,164	2,418,806
Changes in operating assets and liabilities		
Accounts receivable	(6,734,440)	(818,035)
Productive capacity operating assets	62,120	221,674
Prepaid expenses and other	(81,608)	(100,857)
Contracts receivable	1,042,413	(6,231,990)
Accounts payable and accrued expenses	(5,327,537)	10,042,719
Net Cash Provided by Operating Activities	$ 4,226,371	$ 11,646,094

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Municipal Energy Agency of Nebraska (MEAN or the Agency) was created pursuant to provisions of the Municipal Cooperative Financing Act (Act). MEAN, pursuant to the Act, is a political subdivision of the State of Nebraska providing power supply, energy transmission and exchange of electrical power to its member municipalities and other nonmember participants.

Reporting Entity

In evaluating how to define the Agency, for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity's fiscal dependency on the Agency.

MEAN, Nebraska Municipal Power Pool (POOL), National Public Gas Agency (NPGA) and Public Alliance for Community Energy (ACE), comprise a coalition referred to by the trade name NMPP Energy. This coalition of entities provides energy-related services to member and nonmember participants while sharing facilities and management personnel. None of the organizations included in NMPP Energy are responsible for the obligations, liabilities or debts of any of the other organizations in the coalition. Based upon the above criteria, none of the organizations are considered component units of any of the other associated organizations.

Basis of Accounting and Presentation

MEAN's activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. MEAN's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). MEAN prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Government Accounting Standards Board (GASB). MEAN's accounting policies also follow the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

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 balance sheet amounts and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

MEAN considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At March 31, 2014 and 2013, cash equivalents consisted primarily of money market mutual funds.

Investments and Investment Income

MEAN maintains various debt service reserve accounts that are available for use to pay off debt. The reserve accounts consist of bank deposits and investments. Investments in money market mutual funds, U.S. agency obligations and other debt securities are carried at fair value. Fair value is determined using quoted market prices. Investment income consists of interest income and the net change for the year in the fair value of investments.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are charged off as they are deemed uncollectible. MEAN does not believe an allowance for doubtful accounts is necessary at March 31, 2014 and 2013, as there were no delinquent accounts.

Productive Capacity Operating Assets

Productive capacity operating assets related to the operation of Laramie River Station (LRS), Walter Scott, Jr. Energy Center Unit 4 (WSEC 4) and Wygen Unit I (Wygen I) are comprised of operating assets, primarily fuel and supplies inventories, and operating cash. These assets are managed by the operating agent of each respective project. Operating expenses related to MEAN’s participation in LRS, WSEC 4 and Wygen I are included in electric energy costs in the statements of revenues, expenses and changes in net position.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Productive Capacity

Productive capacity includes the costs incurred for:

- A 1.67% ownership interest in the three-unit 1,697 MW coal-fired steam-electric LRS generating station and an associated transmission system in Platte County, Wyoming on the Laramie River. MEAN purchased the ownership interest from Lincoln Electric System, a co-owner of the Missouri Basin Power Project (MBPP) that includes LRS.
- Ownership of a 10.5 MW wind project consisting of seven turbines located near Kimball, Nebraska.
- A 6.92% ownership interest in the 790 net MW coal-fired steam-electric WSEC 4 generation unit near Council Bluffs, Iowa. MidAmerican Energy Company developed, designed, constructed and operates WSEC 4.
- A 23.5% ownership interest in the 85 MW coal-fired Wygen Unit I electric generation unit located near Gillette, Wyoming. Black Hills Wyoming, Inc. developed, designed, constructed and operates Wygen Unit I.

Productive capacity costs are being amortized on both a sinking fund method and on the straight-line basis over the estimated life of the various projects.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by MEAN:

Building and improvements	7 – 30 Years
Furniture, equipment and transportation equipment	3 – 7 Years

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are not included in the determination of the change in net position until such costs are expected to be recovered through wholesale electric service rates, in accordance with the regulated operations provisions of GASB Statement No. 62.

Deferred Cost of Refunded Debt

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Amortization is recorded annually in nonoperating expenses.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Deferred Revenue - Rate Stabilization

MEAN's Board of Directors established a rate stabilization account within the general reserve fund pursuant to the provisions in the 2003 Power Supply System Revenue Bond Resolution and related supplemental resolutions to assist in maintaining stable electric rates for its participants. Electric energy revenues of $1,623,164 were transferred into the rate stabilization account in 2014. Electric energy revenues of $6,286,806 were transferred into the rate stabilization account in 2013 (see Notes 8 and 13). A transfer of $3,868,000 was also made out of the account in 2013 resulting in a net provision for rate stabilization in 2013 of $2,418,806. As of March 31, 2014 and 2013, $21,369,680 and $19,746,516, respectively, are shown as deferred revenue - rate stabilization on the accompanying balance sheets.

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

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

Income Taxes

In accordance with certain provisions of the Internal Revenue Code, the Act and related governing laws and regulations, MEAN, as a local governmental entity, is exempt from federal and state income taxes.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Classification of Revenues

Operating revenues include revenues resulting from provision and delivery of electric supplies to participants and customers and administrative fees charged for scheduling and other services provided to participants. Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities.

Rates

MEAN annually determines its wholesale electric service rates to recover costs of providing power supply services. In addition, rates and charges are established and collected in order to reasonably expect net revenues which, together with other available funds (including rate stabilization account funds), will be sufficient to pay the aggregate annual debt service for such year. A Pooled Energy Adjustment is included in MEAN's schedule of rates and charges and is used when necessary to recover the actual monthly energy costs in excess of budgeted monthly energy costs. Rates and charges for providing wholesale power supply are reviewed annually and adopted by MEAN's Board of Directors. The Electrical Resources Pooling Agreement provides for a Management Committee which sets certain rates based on the budget adopted by MEAN's Board of Directors. MEAN's power supply rates and charges are not subject to state or Federal regulation.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. These reclassifications had no effect on the change in net position.

Implementation of New Accounting Pronouncements

In 2014, MEAN implemented the provisions of GASB Statement No. 61, *The Financial Reporting Entity-Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. The requirements of GASB Statements No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of this standard did not have a significant impact on MEAN's financial statements.

Note 2: Deposits, Investments and Investment Return

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. MEAN's deposit policy for custodial credit risk requires compliance with the provisions of state law. State statutes require banks either to give bond or to pledge government securities to MEAN in the amount of MEAN's deposits.

Note 2: Deposits, Investments and Investment Return – Continued

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to $250,000 per official custodian at each covered institution. At March 31, 2014, approximately $640,000 of MEAN's deposits at one financial institution were uninsured and uncollateralized.

Investments

MEAN's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. MEAN may invest in U.S. Treasury and U.S. agency securities, certificates of deposit, time deposits, banker's acceptances, commercial paper, municipal bonds and investment contracts. In the event that secured investment opportunities arise, other than those specified above, investment consent is required through the approval of two of the following: the Chair of the Board of Directors, Secretary-Treasurer of the Board of Directors or the MEAN Executive Director.

At March 31, 2014 and 2013, MEAN had the following investments, maturities and credit ratings:

		Maturities in Years			Credit Rating
	Fair Value	Less Than 1	1 - 5	6 - 10	Moody's/ S&P
March 31, 2014					
Money market mutual funds - US agencies	$ 7,237,640	$ 7,237,640	$ -	$ -	Aaa-mf/AAAm
US agency obligations	16,185,670	1,411,866	14,773,804	-	Aaa/AA+
US agency obligations	399,815	-	399,815	-	Not Rated
Negotiable certificates of deposit	13,487,563	7,009,423	6,478,140	-	Not Rated
Commercial paper	819,253	819,253	-	-	P-1/A-1
Corporate bond (variable interest rate)	1,500,000	1,500,000	-	-	Not Rated
	$ 39,629,941	$ 17,978,182	$ 21,651,759	$ -	
March 31, 2013					
Cash held at trustee	$ 20,714	$ 20,714	$ -	$ -	N/A
Money market mutual funds - US agencies	16,574,349	16,574,349	-	-	Aaa-mf/AAAm
US agency obligations	14,918,287	-	11,293,755	3,624,532	Aaa/AA+
Negotiable certificates of deposit	16,137,036	8,680,246	7,456,790	-	Not Rated
Commercial paper	3,149,542	3,149,542	-	-	P-1/A-1
Commercial paper	3,149,541	3,149,541	-	-	Not rated/A-1
Corporate bond (variable interest rate)	1,500,000	1,500,000	-	-	Not Rated
	$ 55,449,469	$ 33,074,392	$ 18,750,545	$ 3,624,532	

Note 2: Deposits, Investments and Investment Return – Continued

***Interest Rate Risk* -** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MEAN's investment policy does not place a limit on the amount that may be invested in any one maturity category. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

***Credit Risk* -** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MEAN's investment policy establishes requirements for certain investment securities or issuers of securities to be rated at certain rates or higher. The following investment types must be rated at the minimum rates noted below:

Commercial paper	A-1, P-1
Municipal bonds	AA-

***Custodial Credit Risk* -** For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, MEAN would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At March 31, 2014 and 2013, certain investments in U.S. agency obligations, negotiable certificates of deposit and corporate bonds are held in safekeeping in a broker account with MEAN's primary financial institution. Additionally, any investments held in trust at March 31, 2014 and 2013, are held in a book entry system in an account designated as a customer account at the Depository Trust Company and the custodian's internal records identifies MEAN as the owner.

***Concentration of Credit Risk* -** Concentration of credit risk is the risk associated with the amount of investments MEAN has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. MEAN's investment policy limits the amount of its investment portfolio that may be invested in any one issuer, other than U.S. government securities, to 10%. Allocation limits do not apply to the investment of proceeds from the issuance of debt as these investments are governed by the debt instrument. All of the money market mutual funds held at March 31, 2014 and 2013 are invested with MEAN's primary financial depository. This financial depository also serves as MEAN's Trustee and writer on the credit facilities discussed in Note 6.

Note 2: Deposits, Investments and Investment Return – Continued

Concentrations greater than 5% at March 31, 2014 are shown below:

U.S. sponsored agency obligations	
Federal Home Loan Bank	15.21%
Federal Farm Credit Bank	14.60%
Federal National Mortgage Association	5.25%
Federal Home Loan Mortgage Corporation	5.79%

Concentrations greater than 5% at March 31, 2013 are shown below:

U.S. sponsored agency obligations	
Federal National Mortgage Association	11.06%
Federal Home Loan Bank	5.69%
Commerical Paper	
Wheels, Inc.	5.68%
Abbey National North America LLC	5.68%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2014 and 2013 as follows:

	2014	2013
Carrying Value		
Deposits	$ 14,708,617	$ 6,632,067
Investments	39,629,941	55,449,469
	$ 54,338,558	$ 62,081,536

Note 2: Deposits, Investments and Investment Return – Continued

Included in the following balance sheet captions:

	2014	2013
Current Assets		
Cash and cash equivalents		
Operating	$ 14,713,617	$ 6,637,068
Debt service funds	7,128,464	6,319,284
Total	21,842,081	12,956,352
Short-term investments		
Operating	1,418,953	5,377,890
Rate stabilization fund	5,590,682	3,301,546
Total	7,009,635	8,679,436
Noncurrent Assets		
Long-term investments - rate stabilization fund	9,569,028	10,158,164
Restricted long-term investments		
Construction fund	2,318,145	16,547,251
Debt reserve funds	13,599,669	13,740,333
Total	15,917,814	30,287,584
	$ 54,338,558	$ 62,081,536

Investment Return

Investment return for the years ended March 31, 2014 and 2013 consisted of interest income and the net change in fair value of investments carried at fair value of $126,227 and $368,301, respectively.

Municipal Energy Agency of Nebraska

Notes to Financial Statements

March 31, 2014 and 2013

Note 3: Productive Capacity

Productive capacity at March 31, 2014 and 2013 consisted of the following:

	Beginning Balance	Additions	Ending Balance
March 31, 2014			
Productive capacity	$ 204,550,073	$ 1,950,201	$ 206,500,274
Less accumulated depreciation	(57,487,253)	(8,285,911)	(65,773,164)
Productive capacity, net	$ 147,062,820	$ (6,335,710)	$ 140,727,110
March 31, 2013			
Productive capacity	$ 203,033,813	$ 1,516,260	$ 204,550,073
Less accumulated depreciation	(49,600,686)	(7,886,567)	(57,487,253)
Productive capacity, net	$ 153,433,127	$ (6,370,307)	$ 147,062,820

Note 4: Capital Assets

Capital assets at March 31, 2014 and 2013 consisted of the following:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
March 31, 2014					
Land	$ 489,000	$ -	$ -	$ -	$ 489,000
Buildings and improvements	5,147,328	-	-	-	5,147,328
Furniture, equipment and transportation equipment	1,521,597	188,842	(15,514)	167,473	1,862,398
Construction in progress	184,025	-	-	(167,473)	16,552
	7,341,950	188,842	(15,514)	-	7,515,278
Less accumulated depreciation	(673,112)	(381,870)	15,514	-	(1,039,468)
Net capital assets	$ 6,668,838	$ (193,028)	$ -	$ -	$ 6,475,810
March 31, 2013					
Land	$ -	$ 489,000	$ -	$ -	$ 489,000
Buildings and improvements	-	1,174,206	-	3,973,122	5,147,328
Furniture, equipment and transportation equipment	2,274,593	902,517	(1,703,128)	47,615	1,521,597
Construction in progress	4,037,289	167,473	-	(4,020,737)	184,025
	6,311,882	2,733,196	(1,703,128)	-	7,341,950
Less accumulated depreciation	(2,092,444)	(283,796)	1,703,128	-	(673,112)
Net capital assets	$ 4,219,438	$ 2,449,400	$ -	$ -	$ 6,668,838

Note 5: Costs Recoverable from Future Billings

Costs recoverable from future billings are comprised primarily of costs related to certain purchases of productive capacity, improvements on productive capacity and projects in which MEAN is a participant. The costs consist of the cumulative difference between depreciation recorded on certain productive capacity (primarily LRS, WSEC 4 and Wygen I) and capital assets and principal payments on debt issued to construct or purchase those assets. Upon implementation of GASB 65, costs recoverable from future billings include certain debt issuance costs that are budgeted to be recovered through future electric rates. In 2013, the transmission costs recorded in electric energy costs, as a result of the proposed settlement with SPP (See Note 13), of approximately $6.3 million have been capitalized in accordance with the regulated operations provisions of GASB 62. Costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

MEAN annually evaluates the probability that future revenues will be recognized through charging regulated rates to recover costs recoverable from future billings. As a result of this evaluation, no costs were removed in 2014 and MEAN removed approximately $7,013,000, in 2013, of costs recoverable from future billings through a charge to the net costs to be recovered in future periods included in nonoperating revenues on the statement of revenues, expenses and changes in net position. The costs removed in 2013 include bond issue costs from bond transactions that were refunded during the 2013A and 2012A bond transactions and other accumulated costs that will no longer be collected through future revenues.

Note 6: Credit Facilities

Line of Credit

MEAN has a $20,000,000 revolving line of credit expiring May 31, 2017. During the years ended March 31, 2014 and 2013, no funds were advanced against the line. Interest varies at two percent (2%) above Daily One Month LIBOR in effect from time to time and is payable monthly.

Letters of Credit

As financial security for MEAN's performance under certain financial transmission rights and transmission congestion rights in regional transmission organizations in which MEAN participates, MEAN has obtained two standby letters of credit totaling $2 million at March 31, 2014. The $500,000 standby letter of credit was automatically renewed in April 2014, under an automatic annual renewal clause, to April 7, 2015. The $1.5 million standby letter of credit, expiring December 31, 2014, also includes an automatic annual renewal clause and was increased to $8.5 million in May 2014. The amount available under MEAN's revolving line of credit is reduced by the amount of the issued standby letters of credit.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2014 and 2013

Note 7: Long-term debt

The following is a summary of long-term debt transactions for the Agency for the year ended March 31, 2014:

	2014				
Type of Debt	April 1 2013	Additions	Reductions	March 31 2014	Due Within One Year
3.000% - 5.000% Power Supply System Revenue and Refunding Bonds, Series 2013A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2015 through 2019 and 2022 through 2025. Term principal payment due April 1, 2036. Mandatory sinking fund payments due annually April 1, 2033 through 2036. Redeemable at par on or after April 1, 2023.	$ 32,430,000	$ -	$ -	$ 32,430,000	$ -
1.270% - 3.319% Power Supply System Revenue Bonds, Series 2013B (Federally Taxable). Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2016 through 2022.	6,795,000	-	-	6,795,000	-
2.000% - 5.000% Power Supply System Revenue Refunding Bonds, Series 2012A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2013 through 2032. Redeemable at par on or after April 1, 2022.	63,870,000	-	1,715,000	62,155,000	1,740,000
5.000% - 5.375% Power Supply System Revenue Refunding Bonds, Series 2009A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1 through 2024. Term payments due April 1, 2029 and 2039. Mandatory sinking fund payments due annually April 1, 2029 through 2039. Serial bonds redeemable at par on or after April 1, 2019. Term bonds redeemable by operation of sinking fund installments at the principal amount thereof.	75,780,000	-	1,070,000	74,710,000	1,115,000
Total long-term debt	178,875,000	-	2,785,000	176,090,000	2,855,000
Premium on long-term debt	12,382,438	-	621,122	11,761,316	-
Long-term debt, net	$ 191,257,438	$ -	$ 3,406,122	$ 187,851,316	$ 2,855,000

Note 7: Long-term debt - Continued

The following is a summary of long-term debt transactions for the Agency for the year ended March 31, 2013:

Type of Debt	April 1 2012	Additions	Reductions	March 31 2013	Due Within One Year
	2013				
3.000% - 5.000% Power Supply System Revenue and Refunding Bonds, Series 2013A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2015 through 2019 and 2022 through 2025. Term principal payment due April 1, 2036. Mandatory sinking fund payments due annually April 1, 2033 through 2036. Redeemable at par on or after April 1, 2023.	$ -	$ 32,430,000	$ -	$ 32,430,000	$ -
1.270% - 3.319% Power Supply System Revenue Bonds, Series 2013B (Federally Taxable). Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2016 through 2022.	-	6,795,000	-	6,795,000	-
2.000% - 5.000% Power Supply System Revenue Refunding Bonds, Series 2012A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually April 1, 2013 through 2032. Redeemable at par on or after April 1, 2022.	63,870,000	-	-	63,870,000	1,715,000
5.000% - 5.375% Power Supply System Revenue Refunding Bonds, Series 2009A. Interest due semi-annually on April 1 and October 1. Serial principal payments due annually on April 1 through 2024. Term payments due April 1, 2029 and 2039. Mandatory sinking fund payments due annually April 1, 2029 through 2039. Serial bonds redeemable at par on or after April 1, 2019. Term bonds redeemable by operation of sinking fund installments at the principal amount thereof.	76,795,000	-	1,015,000	75,780,000	1,070,000
3.250% - 5.250% Power Supply System Revenue Bonds, Series 2003A. Interest due semi-annually on April 1 and October 1. These bonds were refunded by the Series 2013A issuance.	23,605,000	-	23,605,000	-	-
Total long-term debt	164,270,000	39,225,000	24,620,000	178,875,000	2,785,000
Premium on long-term debt	10,192,809	2,693,635	504,006	12,382,438	-
Long-term debt, net	$ 174,462,809	$ 41,918,635	$ 25,124,006	$ 191,257,438	$ 2,785,000

Note 7: Long-term Debt - Continued

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at March 31, 2014 are as follows:

Year Ending March 31,	Principal	Interest	Total
2015	$ 2,855,000	$ 8,481,525	$ 11,336,525
2016	4,155,000	8,353,525	12,508,525
2017	5,530,000	8,187,179	13,717,179
2018	5,715,000	7,975,492	13,690,492
2019	5,945,000	7,723,901	13,668,901
2020-2024	27,870,000	34,726,854	62,596,854
2025-2029	29,525,000	27,635,959	57,160,959
2030-2034	35,280,000	19,718,494	54,998,494
2035-2039	47,960,000	9,520,369	57,480,369
2040	11,255,000	302,478	11,557,478
	$ 176,090,000	$ 132,625,776	$ 308,715,776

The Power Supply System Revenue Bonds listed above are special obligations of MEAN payable solely from and secured solely by a pledge of the Revenues and certain other funds and amounts pursuant to each applicable Bond Resolution. The Revenues consist of all income from MEAN's Power Supply System.

Bond Refunding

On March 13, 2013, MEAN issued $32,430,000 in Power Supply System Revenue and Refunding Bonds, 2013 Series A (2013 Series A) with an average interest rate of 4.45 percent. The 2013 Series A bonds were issued to advance refund $23,165,000 of outstanding 2003 Series A bonds; provide funds for the settlement payment with Southwest Power Pool (see Note 13); fund the costs of planned capital additions, improvements and replacements to MEAN's interests in LRS, WSEC 4, and Wygen I; fund the debt service reserve account; and pay issuance costs of the bonds. The refunded bonds had an average interest rate of 5.00 percent. The net proceeds of approximately $34,796,000 consist of the net original issue premium of approximately $2,694,000 reduced by payments of approximately $328,000 in underwriting fees and other issuance costs. Net proceeds of $23,165,000 plus $800,888 of 2003A debt service cash and investments were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 Series A bonds refunded and principal and interest due April 1, 2013. As a result, the 2003 Series A bonds totaling $23,385,000 were considered to be defeased and the liability for those bonds had been removed from the balance sheet as of March 31, 2013. MEAN completed the refunding to reduce its total debt service payments over the next 21 years by approximately $4.3 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $3.0 million. These bonds were called on April 1, 2013 and fully paid off using the escrow funds.

Note 8: Electric Energy Sales

Electric energy sales for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Long-term total requirements	$ 97,747,792	$ 90,846,095
Limited-term total requirements	32,173,613	31,248,363
Service power	1,403,063	1,242,118
Interchange sales	16,666,798	15,277,571
	$ 147,991,266	$ 138,614,147

MEAN has entered into sixty-nine Electrical Resources Pooling Agreements which consist of Nebraska, Colorado, Iowa and Wyoming municipalities; a public power district in Nebraska; and a power authority in Colorado.

Total Requirements

Fifty-four participants have entered into long-term total requirements contracts. The long-term total requirements contracts extend through the final maturity of MEAN's outstanding long-term debt. Nine participants have entered into limited-term total requirements contracts. The limited-term total requirements contracts vary in length, but are generally up to ten years.

The total requirements agreements require MEAN to supply and obligate the participants to purchase, all capacity and energy in excess of each participant's firm power and energy allocations from Western Area Power Administration (WAPA), and include limited exceptions for certain generating facilities of Waverly Light & Power, Iowa; Aspen, Colorado; and Gillette, Wyoming.

MEAN has contracted to collect payments for WAPA power and energy purchased by certain participants and remits these payments to WAPA. Since MEAN is only acting as an agent, these amounts are not reflected as revenue or expense in the Statements of Revenues, Expenses and Changes in Net Position. These amounts totaled approximately $6,641,000 and $9,065,000 during 2014 and 2013, respectively.

In January 2013, the Board of Directors and Management Committee established a regulatory independent transmission system operator and transmission adjustment (RITA) of approximately $6.3 million to recover the cost incurred by MEAN under the settlement agreement with SPP discussed in Note 13. The RITA was allocated to each participant under the Electrical Resources Pooling Agreements as of January 2013 and recorded as contracts receivable and electric energy sales revenue in 2013. The RITA will be collected monthly over a five year term beginning April 2014 or the remaining life of the participant's current service schedule, whichever is less. Participants have the option of paying the RITA in a lump sum. In addition, those participants with current service schedule contracts expiring prior to April 2019 have the option of entering into a separate written agreement to spread the participant's share over a maximum of five years.

Note 8: Electric Energy Sales - Continued

As discussed in Note 1 – Deferred Revenue – Rate Stabilization, the electric energy sales revenue from the RITA was transferred into the rate stabilization account in 2013. Transfers of the rate stabilization funds into revenues will be recorded beginning April 2014 in accordance with the RITA payment provisions.

Service Power

Five municipalities and a power authority have elected to become service power participants. Each service power participant maintains full control and responsibility for its existing and future resources to meet its electric power and energy requirements. They may enter into transactions with MEAN, other service power participants or other utilities for the purchase of power and energy. A service power participant may terminate participation by giving two years' written notice to MEAN.

Interchange Sales

Interchange sales consist of short-to-medium term power sales agreements. MEAN entered into a medium term, unit-contingent power sales agreement with a power cooperative for 30 MW of capacity and related energy that ended April 30, 2014. Interchange sales include sales under this agreement totaling $9,514,000 and $9,029,000 for 2014 and 2013, respectively.

Note 9: Electric Energy Costs and Power Supply Commitments

Electric energy costs for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Purchased power	$ 103,577,579	$ 97,923,689
Production	19,011,885	18,185,757
Transmission	5,049,485	9,317,443
	$ 127,638,949	$ 125,426,889

Pooling Agreements

Electrical Resources Pooling Agreements allow for the purchase and sale of capacity and energy between MEAN and other power project participants at both fixed and variable rates under the applicable service schedules. Sixty-three bulk participants and six service participants have executed these agreements.

Note 9: Electric Energy Costs and Power Supply Commitments - Continued

By execution of the Electrical Resources Pooling Agreements, twenty-one participants have committed total capacity and energy output (approximately 147 MW) to MEAN. The total capacity and energy output agreements provide that MEAN will pay a fixed cost based upon each participant's accredited capability of producing power at rates established by MEAN's Board of Directors. MEAN will also pay a proportionate share of generation costs based on energy actually delivered at rates established by the MEAN Board of Directors. The remaining participants who have not committed their total energy resources are able to make available surplus capacity as requested by MEAN at various negotiated rates. Costs related to capacity and energy output agreements are included in purchased power costs in the table above.

Purchased Power Contracts and Participation Agreements

In addition to ownership interests in energy generation facilities, MEAN has purchased power contracts that provide for the purchase of capacity and wholesale firm and nonfirm energy from suppliers at negotiated rates. Power is purchased primarily for resale to participants of the Electrical Resources Pooling Agreements.

MEAN and other utilities created an interlocal, the Public Power Generation Agency (PPGA), for the construction of Whelan Energy Center Unit 2, a 220 MW coal-fired power plant, which began commercial operation on May 1, 2011. MEAN signed a participation power agreement with PPGA for 80 MW (36.36%) of the power output for the life of the plant. Under this agreement, each participant guarantees an allocated portion of PPGA's debt, which is paid by monthly participant billings.

MEAN has also entered into power supply participation agreements whereby MEAN has agreed to share in the energy output of various projects in accordance with the anticipated needs of MEAN's participants. These contracts vary from 3 to 50 MW's per year, with maximum annual commitments of approximately 150 MW's. These contracts contain fixed and variable price components, with varying termination dates between 2015 and 2041.

Costs related to purchased power contracts and participation agreements are included in purchased power costs in the table above.

Market Purchases

MEAN participates in Midcontinent Independent System Operator, Inc. (MISO), SPP and Western Electricity Coordinating Council (WECC) markets. Costs related to market purchases are included in purchased power costs in the table above.

Production

Production costs consist of MEAN's costs incurred to operate and maintain the wind project at Kimball and MEAN's ownership share of costs incurred to operate and maintain LRS, WSEC4 and Wygen Unit 1.

Note 9: Electric Energy Costs and Power Supply Commitments - Continued

Transmission

The transmission needs of MEAN and the total requirements participants are primarily served by ten transmission providers. Transmission costs include network integration transmission service, firm point-to-point transmission service and non-firm point-to-point transmission service.

MEAN has contracted to collect payments for transmission service purchased on behalf of certain participants and remits these payments to the respective providers. Since MEAN is only acting as an agent, these amounts are not reflected as revenue or expense in the Statements of Revenues, Expenses and Changes in Net Position. The transmission service purchased by the participants, that MEAN was responsible for collecting and remitting to the respective transmission providers, totaled approximately $14,242,000 and $14,279,000 during 2014 and 2013, respectively.

Note 10: Transactions with Coalition Members

MEAN, POOL, NPGA and ACE through common members and management comprise a coalition. MEAN shares personnel and facilities within this coalition, as well as enters into agreements for certain products and services.

Amounts due from coalition members are included within accounts receivable and amounts due to coalition members are included in accounts payable and accrued expenses on the balance sheets.

A summary of amounts due from and due to coalition members at March 31, 2014 and 2013 is as follows:

	2014	2013
Due from NPGA	$ 3,172	$ 2,341
Due from POOL	-	152,671
Due from ACE	3,626	3,020
Due from coalition members	$ 6,798	$ 158,032
Due to POOL	$ 75,899	$ -

MEAN incurred expenses of approximately $4,280,000 and $3,950,000 for administrative services provided by POOL during 2014 and 2013, respectively. In 2014 and 2013, MEAN billed coalition members approximately $137,000 and $118,000, respectively, for the use of equipment and furniture.

Note 11: Risk Management

MEAN is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. MEAN carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

Note 12: Significant Estimates and Concentrations

Proposed Environmental Standards

In December 2011, the U.S. Environmental Protection Agency (EPA) finalized standards to limit mercury, acid gases and other toxic pollution from power plants. Specifically, the Mercury and Air Toxics Standard (MATS) for power plants will reduce emissions from new and existing coal and oil-fired electric utility steam generating units. Twenty-four states and a number of state chambers of commerce and manufacturing associations are challenging the rule. Operators of MEAN's facilities have created a plan to promote compliance; however, the final impact to MEAN is unknown pending final EPA rules.

In January 2011, the Nebraska Department of Environmental Quality (NDEQ) submitted its State Implementation Plan (SIP) for Best Available Retrofit Technology (BART)/Regional Haze Rule to the EPA. BART requires retrofit application of emission controls for industrial facilities emitting air pollutants that reduce visibility at federally protected parks and wilderness areas, and could potentially affect MEAN through its participation agreements for the output of power from certain coal-fired plants in the State of Nebraska. The final impact to MEAN is unknown.

The State of Wyoming submitted its SIP to the EPA in 2011, which included plans for LRS. In January 2014, the EPA issued their final ruling on this SIP, requiring installation of selective catalytic reduction (SCR) NOx removal technology for five coal plants in Wyoming, including the three units at LRS. MBPP is currently evaluating the impact of this decision and its options in responding to the decision. The EPA's final rule is expected to impose significant future costs at LRS, as a result of the extensive renovations at these facilities, the high capital cost of the SCR equipment and dramatically increased operating costs associated with SCRs. The level of regulatory and legal uncertainly related to these facilities makes it impractical to quantify the specific potential financial impact to MEAN at this time.

Any changes in the environmental regulatory requirements imposed by federal or state law which are applicable to generating stations, in which MEAN is either an owner or participant, could result in increased capital and operating costs being incurred by MEAN. Until such changes are finalized and implemented, MEAN is unable to predict when pending changes will be made to current environmental regulatory requirements and how the changes may impact MEAN.

Note 13: Southwest Power Pool, Inc. Settlement Agreement

MEAN entered into a settlement agreement with Southwest Power Pool, Inc. (SPP) in February 2013 that provided for the payment of a settlement amount of approximately $6.3 million in respect of MEAN's alleged improper use of network integration transmission service from SPP during the period from February 2010 through January 2012. Although MEAN denied any tariff violation, MEAN modified its practices to address SPP's allegations. On March 4, 2013, MEAN and SPP filed a joint settlement agreement with the Federal Regulatory Commission (FERC) for review and approval. The joint settlement agreement was accepted by FERC on August 8, 2013 and the settlement was paid to SPP in October 2013.

MEAN recorded an accrued expense on the balance sheet at March 31, 2013 for the settlement amount of approximately $6.3 million with a corresponding charge to transmission expenses included in electric energy costs on the statement of revenues, expenses and changes in net position for the year ended March 31, 2013. As discussed in Note 5, the recorded costs have been deferred in accordance with the regulated operations provisions of GASB Statement No. 62. Costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates as discussed in Note 8.