

Nebraska Municipal Power Pool

Independent Auditor's Report and Financial Statements

March 31, 2019 and 2018

NMPP

NEBRASKA MUNICIPAL POWER POOL

Nebraska Municipal Power Pool
March 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Nebraska Municipal Power Pool
Lincoln, Nebraska

We have audited the accompanying financial statements of Nebraska Municipal Power Pool, which comprise the statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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 Nebraska Municipal Power Pool as of March 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2019, Nebraska Municipal Power Pool adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Lincoln, Nebraska
May 13, 2019

Nebraska Municipal Power Pool
Statements of Financial Position
March 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 196,358	\$ 304,147
Certificates of deposit	200,000	205,000
Accounts receivable	148,772	86,752
Contracts receivable	75,531	50,733
Due from coalition members	964,510	800,146
Prepaid expenses and other current assets	<u>421,310</u>	<u>459,655</u>
Total current assets	<u>2,006,481</u>	<u>1,906,433</u>
Noncurrent Assets		
Long-term contracts receivable	12,170	29,196
Equipment, net	17,842	-
Software development costs, net	<u>13,618</u>	<u>30,438</u>
Total noncurrent assets	<u>43,630</u>	<u>59,634</u>
Total assets	<u><u>\$ 2,050,111</u></u>	<u><u>\$ 1,966,067</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 125,904	\$ 182,766
Accrued expenses	842,167	818,255
Unearned revenue	<u>617,751</u>	<u>618,612</u>
Total current liabilities	<u>1,585,822</u>	<u>1,619,633</u>
Net Assets		
Without donor restrictions		
Undesignated	126,544	29,864
Board designated - New Initiatives Fund	90,710	95,889
Invested in software development	13,618	2,938
Invested in equipment	<u>17,842</u>	<u>-</u>
Total net assets without donor restrictions	<u>248,714</u>	<u>128,691</u>
With donor restrictions		
Purpose restriction - Energy Research and Development Fund	<u>215,575</u>	<u>217,743</u>
Total net assets	<u>464,289</u>	<u>346,434</u>
Total liabilities and net assets	<u><u>\$ 2,050,111</u></u>	<u><u>\$ 1,966,067</u></u>

Nebraska Municipal Power Pool
Statements of Activities
Years Ended March 31, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Support						
Support services for coalition members	\$ 11,004	\$ -	\$ 11,004	\$ 136,825	\$ -	\$ 136,825
Program assessments and sales	1,242,715	-	1,242,715	1,089,374	-	1,089,374
Dues	271,593	-	271,593	268,527	-	268,527
Grant contributions	-	17,832	17,832	-	17,649	17,649
Investment return	5,080	-	5,080	3,818	-	3,818
Other	4,228	-	4,228	4,554	-	4,554
Net assets released from restrictions	20,000	(20,000)	-	-	-	-
Total revenues and other support	<u>1,554,620</u>	<u>(2,168)</u>	<u>1,552,452</u>	<u>1,503,098</u>	<u>17,649</u>	<u>1,520,747</u>
Operating Expenses						
Computer services	548,347	-	548,347	566,555	-	566,555
Distribution services	411,188	-	411,188	463,747	-	463,747
Energy research and development grants	20,000	-	20,000	-	-	-
Management and general	455,062	-	455,062	427,203	-	427,203
Total operating expenses	<u>1,434,597</u>	<u>-</u>	<u>1,434,597</u>	<u>1,457,505</u>	<u>-</u>	<u>1,457,505</u>
Change in Net Assets	120,023	(2,168)	117,855	45,593	17,649	63,242
Net Assets, Beginning of the Year	<u>128,691</u>	<u>217,743</u>	<u>346,434</u>	<u>83,098</u>	<u>200,094</u>	<u>283,192</u>
Net Assets, End of the Year	<u>\$ 248,714</u>	<u>\$ 215,575</u>	<u>\$ 464,289</u>	<u>\$ 128,691</u>	<u>\$ 217,743</u>	<u>\$ 346,434</u>

Nebraska Municipal Power Pool
Statement of Functional Expenses
Year Ended March 31, 2019

	<u>Program Activities</u>			<u>Program Subtotal</u>	<u>Supporting Activities</u>	<u>Total Expenses</u>
	<u>Computer Services</u>	<u>Distribution Services</u>	<u>Energy Research and Development</u>		<u>Management and General</u>	
Payroll and benefits	\$ 130,410	\$ 286,507	\$ -	\$ 416,917	\$ 345,754	\$ 762,671
Professional fees	837	69,147	-	69,984	27,781	97,765
Advertising and promotion	-	-	-	-	10,690	10,690
Office and occupancy	15,321	30,837	-	46,158	28,792	74,950
Information technology	1,583	3,174	-	4,757	3,182	7,939
Royalties	347,040	-	-	347,040	-	347,040
Conferences, meetings, and travel	18,560	17,581	-	36,141	23,654	59,795
Depreciation and amortization	16,820	3,942	-	20,762	-	20,762
Insurance	-	-	-	-	15,209	15,209
Purchases for resale	17,776	-	-	17,776	-	17,776
Grants	-	-	20,000	20,000	-	20,000
	<u>\$ 548,347</u>	<u>\$ 411,188</u>	<u>\$ 20,000</u>	<u>\$ 979,535</u>	<u>\$ 455,062</u>	<u>\$ 1,434,597</u>
Total expenses	<u>\$ 548,347</u>	<u>\$ 411,188</u>	<u>\$ 20,000</u>	<u>\$ 979,535</u>	<u>\$ 455,062</u>	<u>\$ 1,434,597</u>

Nebraska Municipal Power Pool
Statement of Functional Expenses
Year Ended March 31, 2018

	<u>Program Activities</u>			<u>Program Subtotal</u>	<u>Supporting Activities</u>	<u>Total Expenses</u>
	<u>Computer Services</u>	<u>Distribution Services</u>	<u>Energy Research and Development</u>		<u>Management and General</u>	
Payroll and benefits	\$ 145,342	\$ 356,598	\$ -	\$ 501,940	\$ 317,684	\$ 819,624
Professional fees	835	27,509	-	28,344	40,209	68,553
Advertising and promotion	-	-	-	-	6,863	6,863
Office and occupancy	17,949	34,425	-	52,374	25,522	77,896
Information technology	1,764	3,528	-	5,292	1,177	6,469
Royalties	337,130	-	-	337,130	-	337,130
Conferences, meetings, and travel	19,219	41,687	-	60,906	21,446	82,352
Depreciation and amortization	24,802	-	-	24,802	-	24,802
Insurance	-	-	-	-	14,302	14,302
Purchases for resale	19,514	-	-	19,514	-	19,514
Grants	-	-	-	-	-	-
	<u>\$ 566,555</u>	<u>\$ 463,747</u>	<u>\$ -</u>	<u>\$ 1,030,302</u>	<u>\$ 427,203</u>	<u>\$ 1,457,505</u>
Total expenses						

Nebraska Municipal Power Pool
Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 117,855	\$ 63,242
Item not requiring cash		
Depreciation and amortization	20,762	24,802
Changes in		
Accounts receivable	(62,020)	(14,927)
Contracts receivable	(7,772)	1,762
Due from coalition members	(164,364)	(274,310)
Prepaid expenses and other current assets	38,345	(78,339)
Accounts payable	(29,362)	12,509
Accrued expenses	23,912	12,421
Unearned revenue	(861)	(59)
	<u>(63,505)</u>	<u>(252,899)</u>
Net cash used in operating activities		
Investing Activities		
Purchase of equipment	(21,784)	-
Software development costs	(27,500)	(27,500)
Proceeds from redemption of certificates of deposit	130,000	110,000
Purchase of certificates of deposit	(125,000)	(115,000)
	<u>(44,284)</u>	<u>(32,500)</u>
Net cash used in investing activities		
Decrease in Cash	(107,789)	(285,399)
Cash, Beginning of Year	<u>304,147</u>	<u>589,546</u>
Cash, End of Year	<u>\$ 196,358</u>	<u>\$ 304,147</u>
Supplemental Cash Flows Information		
Accounts payable incurred for software development costs	\$ -	\$ 27,500

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

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

Nature of Operations

Nebraska Municipal Power Pool (NMPP) was incorporated for the purpose of identifying, evaluating and resolving problems common to and shared by the membership of NMPP, or any portion of such membership, and relating to the energy needs of NMPP's members. NMPP's membership is comprised primarily of municipalities and other public entities located in Colorado, Iowa, Kansas, Nebraska, North Dakota, and Wyoming. NMPP's operations consist of member activity and various programs. Programs include Computer Services, Distribution Management Services, and Energy Research and Development Grants.

NMPP, Municipal Energy Agency of Nebraska (MEAN), 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.

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

Cash

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts up to \$250,000 per covered institution. At March 31, 2019, NMPP's deposits did not exceed FDIC coverage and collateral held. At March 31, 2018, NMPP's deposits exceeded FDIC coverage and collateral held by approximately \$145,000.

Certificates of Deposit and Investment Return

Certificates of deposit are carried at cost, which approximates fair value. Investment return consists entirely of interest income and was \$5,080 and \$3,818 for 2019 and 2018, respectively.

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 written off based on individual credit evaluation and specific circumstances of the customer. Management does not believe an allowance for doubtful accounts is necessary at March 31, 2019 and 2018 based upon a review of outstanding receivables and historical collection information.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

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

Contracts Receivable

Contracts receivable are stated at the amount outstanding. Contracts receivable consist of charges for cost of service studies. For cost of service study contracts spanning multiple years, receivables are ordinarily due in four annual installments. Management does not believe an allowance for doubtful accounts is necessary at March 31, 2019 and 2018 based upon a review of outstanding receivables and historical collection information.

Prepaid Expenses

Prepaid expenses consist primarily of royalties paid to NMPP's partner within NMPP's Computer Services program. Royalty expense related to the computer software support agreement is prorated over the term of the agreement, generally the calendar year.

Software Development Costs

Software development costs consist of programming and testing costs incurred related to software to be sold within the NMPP Computer Services program. No software development costs were incurred in 2019 or 2018. The \$82,500 of software costs incurred during 2017 are being amortized based on the related current and anticipated future gross revenues for the related product, which is estimated at three years. Amortization expense for the years ended March 31, 2019 and 2018 was \$16,820 and \$24,802, respectively.

Equipment

Equipment acquisitions are stated at cost, less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset, which is estimated at three to five years. Equipment at March 31, 2019 and 2018 is net of accumulated depreciation of \$14,206 and \$14,193, respectively.

Unearned Revenue and Revenue Recognition

Revenue from membership dues is recognized over the period to which the dues relate, generally the fiscal year ending March 31. Revenue from the sale of NMPP's products and services is recognized as delivery is made to the customer or prorated over the term of the agreement. The computer software support agreement is an annual agreement that renews each calendar year. Revenue from cost of service studies is recognized as certain milestones are met. Customer advances are reflected in unearned revenues.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

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

Net Assets

Net assets, revenues, and contributions are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and are not subject to donor restrictions. NMPP's Board of Directors has designated a portion of annual dues to assist the start-up of new services. Annually \$0.01 of the per capita portion of dues paid is contributed to the New Initiatives Fund (NIF). Deposits into the fund consisted of dues totaling \$5,825 and \$5,857 in 2019 and 2018, respectively. Funds totaling \$11,004 were used during 2019 to purchase equipment or refurbish existing equipment needed to provide services to members. No funds were used in 2018. The NIF consisted of cash and totaled \$90,710 and \$95,889 at March 31, 2019 and 2018, respectively.

NMPP's net assets with donor restrictions are temporary in nature and include restrictions that will be met by events specified by the donor. NMPP's members have limited the use of certain grant contributions for the purpose of providing assistance with the development of energy efficient projects. NMPP refers to the related activity as the Energy Research and Development Fund (ERDF). All requests for assistance are reviewed and approved by a committee comprised of member communities. No requests for assistance were received by the committee during fiscal year 2019. During fiscal year 2018, the committee approved assistance of \$20,000 for a project, upon completion of various project reports and other milestones. The related project contingencies were met in 2019, and the \$20,000 was recorded as a release of restriction in 2019. No project contingencies were met in 2018 thus no funds were recorded as a release of restriction in 2018. The ERDF balance as of March 31, 2019 and 2018 was \$215,575 and \$217,743, respectively, and consisted of cash and certificates of deposit.

Income Taxes

NMPP was incorporated under the Nebraska Nonprofit Corporation Act and is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, NMPP is subject to federal income tax on any unrelated business taxable income. NMPP files tax returns in the U.S. federal jurisdiction.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

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

Joint Costs of the Coalition

NMPP incurs joint costs that include personnel and general and administrative costs for coalition members. Coalition members reimburse their allocated portion of these costs to NMPP. The joint costs, net of reimbursement, are included in operating expenses on the statements of activities and statements of functional expenses. Accrued expenses on the statements of financial position include expenses incurred under NMPP's paid time off program for time off earned but not yet taken. Coalition members reimburse their allocated portion of these costs to NMPP when time off is taken. Amounts due from coalition members on the statements of financial position include the allocated amount owed by each coalition member for accrued expenses related to NMPP's paid time off program which totaled approximately \$434,000 and \$485,000 at March 31, 2019 and 2018, respectively.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimates of time and effort include payroll and benefits and certain professional fees, office expenses, and information technology. Occupancy is allocated on a square-footage basis.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. These reclassifications had no effect on the change in net assets.

Change in Accounting Principle

In 2019, NMPP adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statements of Financial Position

The statements of financial position distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted, and permanently restricted.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

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

Change in Accounting Principle - Continued

Statements of Activities

The statements of unrestricted revenues and expenses and the statements of changes in net assets have been replaced by the statements of activities.

Activity is specified between changes in net assets without donor restrictions and changes in net assets with donor restrictions.

Statements of Functional Expenses

The statements of functional expenses have been added to provide an analysis of expenses by their natural classification as well as the related functional classification in one location.

ASU 2016-14 included clarifying guidance on the definition of management and general activities to assist in better depicting costs among program or support functions. Supporting activities are clarified to mean those that are not directly identifiable with one or more program.

Implementation of the guidance resulted in a reclassification of costs between program and supporting activities as follows:

	Computer Services	Distribution Services	Management and General
March 31, 2018, as originally reported	\$ 673,155	\$ 597,354	\$ 186,996
Reclassifications	<u>(106,600)</u>	<u>(133,607)</u>	<u>240,207</u>
March 31, 2018, as reclassified	<u>\$ 566,555</u>	<u>\$ 463,747</u>	<u>\$ 427,203</u>

Notes to Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information regarding allocation of costs and reporting of expenses on both a natural and functional classification.

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statements of financial position.

Amounts and purposes of Board designations as of the end of the period are disclosed.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

Note 2: Employee Benefit Plan

NMPP sponsors a defined contribution savings plan (Plan) covering all employees with 1,000 hours of service and having attained the age of 20½ years. Employees may contribute to the Plan on a before income tax basis. Employees who elect to participate must contribute a minimum of six percent of their salary. NMPP contributes nine percent of each participating employee’s salary. Total contributions by NMPP, principally allocated to coalition members, to the Plan were approximately \$498,000 and \$481,000 for the years ended March 31, 2019 and 2018, respectively. The employee benefit plan costs are reflected net of reimbursement by coalition members in the statements of activities and statements of functional expenses.

Note 3: Transactions with Coalition Members

A summary of amounts due from coalition members at March 31, 2019 and 2018, is as follows:

	2019	2018
Due from MEAN	\$ 805,701	\$ 627,068
Due from NPGA	75,544	82,396
Due from ACE	83,265	90,682
Due from coalition members	\$ 964,510	\$ 800,146

During 2019 and 2018, NMPP provided equipment and services totaling \$11,004 and \$135,500, respectively, to MEAN, included in support services for coalition members on the statements of activities.

MEAN supports the financial health and utility business management of MEAN’s participating municipal utilities by paying a portion of the cost of computer software value support plan and cost of service studies purchased by qualifying MEAN participants from NMPP. During 2019 and 2018, MEAN paid NMPP, on behalf of MEAN’s participants, approximately \$158,200 and \$148,900, respectively, included in program assessments and sales on the statements of activities.

A summary of approximate joint costs incurred by NMPP which have been or will be reimbursed by coalition members during 2019 and 2018, is as follows:

	2019	2018
MEAN	\$ 7,720,000	\$ 6,930,000
NPGA	480,000	540,000
ACE	560,000	600,000

MEAN has ownership of nearly all common property, equipment and furniture. Under the terms of a Joint Operating Agreement, MEAN billed NMPP approximately \$47,600 in 2019 and \$46,900 in 2018, for the use of property, equipment and furniture.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2019 and 2018

Note 4: Liquidity and Availability

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of March 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 196,358	\$ 304,147
Certificates of deposit	200,000	205,000
Accounts receivable	148,772	86,752
Contracts receivable	<u>75,531</u>	<u>50,733</u>
Financial assets, at year end	<u>620,661</u>	<u>646,632</u>
Less those unavailable for general expenditure within one year, due to:		
Donor imposed restrictions - ERDF	215,575	217,743
Board designated - NIF	<u>90,710</u>	<u>95,889</u>
	<u>306,285</u>	<u>313,632</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 314,376</u>	<u>\$ 333,000</u>

The majority of accounts payable and accrued expenses reported in the statements of financial position at March 31, 2019 and 2018 represent personnel and general and administrative costs for coalition members. These joint costs will be liquidated as they come due through the collection of the due from coalition members balance also reported in the statements of financial position at March 31, 2019 and 2018.

NMPP has a liquidity policy with a goal of maintaining operating funds at least equal to 30 days of budgeted cash operating expenses. NMPP manages liquidity and reserves by reviewing targets annually and replenishing funds when needed through increases in dues and charges for products and contracted services. To assist in maintaining adequate liquidity, dues are billed annually on a fiscal year basis. During the years ended March 31, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 5: Subsequent Events

Subsequent events have been evaluated through May 13, 2019, which is the date the financial statements were available to be issued.