

Nebraska Municipal Power Pool

Accountants' Report and Financial Statements

March 31, 2008 and 2007



Nebraska Municipal Power Pool
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Independent Accountants' Report

Board of Directors
Nebraska Municipal Power Pool
Lincoln, Nebraska

We have audited the accompanying statements of financial position of Nebraska Municipal Power Pool (POOL) as of March 31, 2008 and 2007, and the related statements of unrestricted revenues and expenses, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of POOL's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

July 14, 2008

Nebraska Municipal Power Pool
Statements of Financial Position
March 31, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 227,506	\$ 132,431
Accounts receivable	447,267	55,007
Contracts receivable	44,137	38,770
Due from coalition members	108,340	182,374
Prepaid expenses	<u>247,777</u>	<u>111,515</u>
Total current assets	<u>1,075,027</u>	<u>520,097</u>
Long-Term Contracts Receivable	<u>47,660</u>	<u>46,151</u>
Computer Software Developed for Sale, Net of Accumulated Amortization; 2008 - \$142,552; 2007 - \$117,773	<u>27,594</u>	<u>30,974</u>
Property and Equipment, Net of Accumulated Depreciation; 2008 - \$10,794; 2007 - \$8,417;	<u>3,400</u>	<u>5,777</u>
Total assets	<u><u>\$ 1,153,681</u></u>	<u><u>\$ 602,999</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 380,371	\$ 209,788
Accrued expenses	210,676	162,505
Due to coalition members	12,542	-
Unearned revenue	<u>380,892</u>	<u>186,832</u>
Total current liabilities	<u>984,481</u>	<u>559,125</u>
Net Assets		
Unrestricted	91,137	(17,876)
Temporarily restricted	<u>78,063</u>	<u>61,750</u>
Total net assets	<u>169,200</u>	<u>43,874</u>
Total liabilities and net assets	<u><u>\$ 1,153,681</u></u>	<u><u>\$ 602,999</u></u>

Nebraska Municipal Power Pool
Statements of Unrestricted Revenues and Expenses
Years Ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Support services for coalition members	\$ 96,900	\$ 85,600
Project assessments and sales	984,950	663,355
Dues	184,819	172,258
Other	<u>6,954</u>	<u>11,602</u>
Total revenues	1,273,623	932,815
Net Assets Released From Restrictions	<u>-</u>	<u>4,489</u>
Total revenues and other support	<u>1,273,623</u>	<u>937,304</u>
Operating Expenses		
Program/project services	897,111	750,824
Administrative and general	<u>267,499</u>	<u>336,865</u>
Total expenses	<u>1,164,610</u>	<u>1,087,689</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 109,013</u>	<u>\$ (150,385)</u>

Nebraska Municipal Power Pool
Statements of Changes in Net Assets
Years Ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted Net Assets		
Total revenue	\$ 1,273,623	\$ 932,815
Net assets released from restrictions	-	4,489
Total expenses	<u>(1,164,610)</u>	<u>(1,087,689)</u>
Increase (decrease) in unrestricted net assets	<u>109,013</u>	<u>(150,385)</u>
Temporarily Restricted Net Assets		
Grant contributions	16,313	16,071
Net assets released from restrictions	<u>-</u>	<u>(4,489)</u>
Increase in temporarily restricted net assets	<u>16,313</u>	<u>11,582</u>
Increase (Decrease) in Net Assets	125,326	(138,803)
Net Assets, Beginning of the Year	<u>43,874</u>	<u>182,677</u>
Net Assets, End of the Year	<u><u>\$ 169,200</u></u>	<u><u>\$ 43,874</u></u>

Nebraska Municipal Power Pool
Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Change in net assets	\$ 125,326	\$ (138,803)
Items not requiring operating activities cash flows		
Depreciation and amortization	27,156	37,072
Changes in		
Accounts receivable	(392,260)	(29,506)
Contracts receivable	(6,876)	(19,581)
Energy project costs	-	134,148
Due from coalition members	74,034	(54,434)
Prepaid expenses	(136,262)	(9,912)
Accounts payable	170,583	54,685
Accrued expenses	48,171	8,173
Due to coalition members	12,542	-
Unearned revenue	194,060	848
	<u>116,474</u>	<u>(17,310)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Capitalized software costs	<u>(21,399)</u>	<u>(27,780)</u>
Net cash used in investing activities	<u>(21,399)</u>	<u>(27,780)</u>
Increase (Decrease) in Cash and Cash Equivalents	95,075	(45,090)
Cash and Cash Equivalents, Beginning of Year	<u>132,431</u>	<u>177,521</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 227,506</u></u>	<u><u>\$ 132,431</u></u>

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2008 and 2007

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

Nature of Operations

The Nebraska Municipal Power Pool (POOL) was incorporated for the purpose of identifying, evaluating and resolving problems common to and shared by the membership of POOL, or any portion of such membership, and relating to the energy needs of POOL's members. POOL's membership is comprised primarily of municipalities and other public entities located in Nebraska and states in the surrounding region. POOL consists of two divisions: Members Activity and Projects. Active projects include the following: Energy Projects, Computer Services, Load Management Services, Distribution Management Services, and Energy Research and Development Grants.

POOL, 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.

American Public Energy Agency (APEA) was formed by MEAN and NPGA to provide energy acquisition programs to governmental entities throughout the United States. In 2007, both MEAN and NPGA withdrew their membership in APEA under a board approved reorganization plan. APEA is not a member of the coalition; however, POOL provided some administrative services to APEA in 2007.

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 and expenses during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

POOL considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2008 and 2007, cash equivalents consisted of money market accounts and certificates of deposit.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2008 and 2007

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

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 after best efforts in collection. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary at March 31, 2008 and 2007, as there were no delinquent receivables.

Contracts Receivable

Contracts receivable are stated at the amount outstanding. Contracts receivable consist of charges for rate studies and are ordinarily due in four annual installments. Management does not believe an allowance for doubtful accounts is necessary at March 31, 2008 and 2007, as there were no delinquent contracts receivable.

Computer Software Developed for Sale

Internal and external costs related to software developed for sale are capitalized in compliance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Capitalization of computer software development costs begins upon the establishment of technological feasibility for the product.

Amortization of capitalized computer software development costs begins when the products are available for general release to customers, and is computed on a product-by-product basis based on current and anticipated future revenue for that product with an annual minimum equal to the straight-line method over the remaining estimated economic life of the product (generally total estimated life of 30 months).

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those used by POOL and limited by its members for the purpose of providing assistance with the development of energy efficient projects. All requests for assistance are reviewed and approved by a committee comprised of member communities. During fiscal years 2008 and 2007, the Committee approved assistance of \$0 and \$4,489, respectively, for projects, which released that amount of restricted net assets. Temporarily restricted net assets were \$78,063 and \$61,750 as of March 31, 2008 and 2007, respectively.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2008 and 2007

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

Revenue Recognition

Revenue from the sale of POOL's products and services is recognized as delivery is made to the customer or prorated over the term of the agreement in the case of software support and membership dues, thus customer advances are reflected in unearned revenue. Software sales revenue is recognized when delivered. Revenue from the rate studies is recognized as certain milestones are completed.

Joint Costs of the Coalition

POOL incurs joint costs that include personnel and general and administrative costs for coalition members. Coalition members reimburse their allocated portion of these costs to POOL. The joint costs, net of reimbursement, are included in administrative and general on the statements of unrestricted revenues and expenses.

Income Taxes

POOL was incorporated under the Nebraska Nonprofit Corporation Act and has been granted an exemption from federal and state income taxes.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation. The reclassifications had no effect on the change in net assets.

Note 2: Employee Benefit Plan

POOL sponsors a defined contribution savings plan covering all employees with 1,000 hours of service and having attained the age of 20½ years. Employees may contribute a minimum of six percent of their salary on a before income tax basis. POOL contributes 150 percent of each employee's contribution up to six percent of each employee's salary. Total contributions, principally allocated to coalition members, to the plan were \$294,066 and \$305,943 for the years ended March 31, 2008 and 2007, respectively. The employee benefit plan costs are reflected net of reimbursement by coalition members in the statements of unrestricted revenues and expenses.

Nebraska Municipal Power Pool

Notes to Financial Statements

March 31, 2008 and 2007

Note 3: Transactions with Coalition Members

A summary of amounts due to and from coalition members at March 31, 2008 and 2007, is as follows:

	2008	2007
Due from MEAN	\$ 46,243	\$ 42,782
Due from NPGA	-	70,837
Due from ACE	62,097	68,755
Due from coalition members	\$ 108,340	\$ 182,374
Due to NPGA	\$ 12,542	\$ -
Due to coalition members	\$ 12,542	\$ -

A summary of support services provided to, and paid by, coalition members during 2008 and 2007, is as follows:

MEAN	\$ 91,800	\$ 85,000
ACE	5,100	600
Support services to coalition members	\$ 96,900	\$ 85,600

A summary of joint costs incurred by POOL which have been or will be reimbursed by coalition members during 2008 and 2007, is as follows:

MEAN	\$ 3,845,733	\$ 3,058,136
NPGA	1,193,565	863,132
ACE	833,987	588,269

Under the terms of a Joint Operating Agreement, MEAN retains ownership of nearly all common property, equipment and furniture. In 2008 and 2007, MEAN billed POOL approximately \$68,000 and \$66,000, respectively, for the use of property, equipment and furniture.

Nebraska Municipal Power Pool
Notes to Financial Statements
March 31, 2008 and 2007

Note 4: Litigation

POOL and five of its employees have been named as defendants in a lawsuit filed in Lancaster County District Court and captioned, *City of Falls City, Nebraska v. Nebraska Municipal Power Pool*, et al, Case No. CI 06-4309. The lawsuit was filed by one of the communities associated with POOL and alleges conspiracy, breach of contract and fiduciary duties. POOL and the employees named in the lawsuit deny any wrongdoing and are vigorously defending the lawsuit. POOL has agreed to indemnify its employees named in the lawsuit. A trial before a district court judge was held in May 2008.

On July 8, 2008, the Court entered an order and judgment against POOL and three of its employees awarding damages to the plaintiff of approximately \$530,000. An additional judgment was entered in favor of an intervener-plaintiff against two of the POOL employees. Certain operating restrictions and an accounting to determine other damages were also entered against POOL.

Management of POOL and their legal counsel are evaluating the decision and will continue to aggressively defend against all of the claims and will assert what they believe are meritorious defenses, through the appeals process. As a result, management has concluded that an estimated loss, if any, is not determinable and has not recorded any liability as of March 31, 2008.