

Municipal Energy Agency of Nebraska

Accountants' Report and Financial Statements

March 31, 2010 and 2009



Municipal Energy Agency of Nebraska
March 31, 2010 and 2009

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Municipal Energy Agency of Nebraska
Lincoln, Nebraska

We have audited the accompanying basic financial statements of Municipal Energy Agency of Nebraska ("MEAN") as of and for the years ended March 31, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of MEAN'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Municipal Energy Agency of Nebraska as of March 31, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2010, on our consideration of MEAN's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

June 3, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of Municipal Energy Agency of Nebraska's (MEAN) financial performance provides an overview of MEAN's financial activities for the years ended March 31, 2010, 2009 and 2008. Please read this information in conjunction with the accompanying financial highlights, the basic financial statements and notes to the financial statements.

Financial Analysis

The following comparative condensed financial statements summarize MEAN's financial position and operating results for the years ended March 31, 2010, 2009 and 2008.

Condensed Balance Sheets

	<u>March 31,</u>			<u>Variance</u>	<u>Variance</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>
				<u>to 2009</u>	<u>to 2008</u>
Assets					
Current assets	\$ 48,610,681	\$ 58,366,064	\$ 53,035,270	\$ (9,755,383)	\$ 5,330,794
Capital assets and productive capacity	160,439,123	166,685,685	117,317,311	(6,246,562)	49,368,374
Restricted and long-term investments	29,310,737	14,772,531	20,854,209	14,538,206	(6,081,678)
Other	21,208,295	15,564,195	7,755,607	5,644,100	7,808,588
Total assets	<u>\$259,568,836</u>	<u>\$255,388,475</u>	<u>\$198,962,397</u>	<u>\$ 4,180,361</u>	<u>\$ 56,426,078</u>
Liabilities and Net Assets					
Current liabilities	\$ 18,561,404	\$ 16,483,387	\$ 21,909,214	\$ 2,078,017	\$ (5,425,827)
Long-term debt	171,793,710	173,690,414	111,107,359	(1,896,704)	62,583,055
Long-term deferred revenue	14,150,000	10,250,000	12,250,000	3,900,000	(2,000,000)
Total liabilities	<u>204,505,114</u>	<u>200,423,801</u>	<u>145,266,573</u>	<u>4,081,313</u>	<u>55,157,228</u>
Net assets					
Invested in capital assets, net of related debt	8,964,156	10,628,327	4,421,059	(1,664,171)	6,207,268
Restricted for debt service	1,047,552	3,462,360	8,119,855	(2,414,808)	(4,657,495)
Unrestricted	45,052,014	40,873,987	41,154,910	4,178,027	(280,923)
Total net assets	<u>55,063,722</u>	<u>54,964,674</u>	<u>53,695,824</u>	<u>99,048</u>	<u>1,268,850</u>
Total liabilities and net assets	<u>\$259,568,836</u>	<u>\$255,388,475</u>	<u>\$198,962,397</u>	<u>\$ 4,180,361</u>	<u>\$ 56,426,078</u>

2010 Financial Highlights

- The decrease in current assets is primarily due to the reinvestment of maturing short term investments to those with longer terms, as reflected in the increase in the long-term investment category.
- There is a net decrease in capital assets and productive capacity as depreciation on those assets exceeded the approximately \$750,000 in capital additions during the year, as shown in Notes 3 and 4.
- The increase in other assets is the deferred costs permitted under FASB ASC 980 (formerly Financial Accounting Standards Board Number 71).
- The increase in principal and interest due on long-term debt (approximately \$2 million) and the budgeted use of \$1,696,000 in FY 2011 from the deferred revenue account for rate stabilization purposes resulted in the increase in current liabilities.
- Long-term debt decreased due to the reclassification of current maturities to current liabilities, as further detailed in Note 6.
- Long-term deferred revenues increased as further described in “Risk Management Practices.”

2009 Financial Highlights

- The increase in current assets is primarily due to the reinvestment of maturing long-term investments to those with shorter term maturities, as reflected in the decrease in the restricted and long-term investment category.
- Capital assets and productive capacity increased as a result of MEAN’s acquisition of a 23.5% interest in the Black Hills Wyoming Wygen Unit 1 generating facility.
- The increase in other assets is a combination of charges to deferred costs permitted under FASB ASC 980 (approximately \$5 million) and bond issuance costs to be written off over the life of the 2009 Series A bonds.
- Current liabilities decreased primarily due to the maturity of MEAN’s 1993 mini-bonds on April 1, 2008. Additionally, no funds are budgeted to be used from the rate stabilization fund for rate setting purposes in fiscal year 2010.
- Long-term deferred revenue used for rate stabilization purposes was decreased as further described below.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	March 31,			Variance	Variance
	2010	2009	2008	2010	2009
				to 2009	to 2008
Sales volumes (MWh's)	3,004,000	3,109,000	3,145,000	(105,000)	(36,000)
Electric energy sales and other operating revenues	\$ 135,360,346	\$ 142,450,622	\$ 141,182,745	\$ (7,090,276)	\$ 1,267,877
Transfer (provision) for rate stabilization	(3,900,000)	3,000,000	(2,400,000)	(6,900,000)	5,400,000
Total operating revenues	131,460,346	145,450,622	138,782,745	(13,990,276)	6,667,877
Electric energy costs	116,465,961	131,569,758	128,976,540	(15,103,797)	2,593,218
Other operating expenses	12,206,956	11,675,481	9,466,115	531,475	2,209,366
Total operating costs and expenses	128,672,917	143,245,239	138,442,655	(14,572,322)	4,802,584
Operating income	2,787,429	2,205,383	340,090	582,046	1,865,293
Other revenue (expense), net	(2,688,381)	(936,533)	413,487	(1,751,848)	(1,350,020)
Increase in net assets	\$ 99,048	\$ 1,268,850	\$ 753,577	\$ (1,169,802)	\$ 515,273

2010 Financial Highlights

Operating Revenues

- MWh's delivered to new and existing member communities decreased 4.1%, while MWh's delivered to non-member entities decreased .004%, for a 3.4% net decrease in MWh's sold.
- The decrease in revenues from member sales of \$3,400,000 (2.7%) and non-member sales of \$3,100,000 (11.4%) was due to lower demand for energy in 2010 as compared to 2009.
- In 2010, the Board of Directors authorized the transfer of \$3,900,000 to the rate stabilization fund for rate setting purposes.

Operating Costs and Expenses

- Electric energy costs were lower in 2010 due to the decrease in energy demand by both members and other buying entities.
- The primary increase in other operating expenses was due to additional depreciation on acquired facilities. This increase was partially offset by a decrease in lawsuit expenses as compared to 2009. The Nebraska Supreme Court ruled in favor of the Nebraska Municipal Power Pool and its employees in 2010.

Nonoperating Revenues (Expenses)

- Other revenues (expenses) increased due to an additional interest expense on the bonds issued in January 2009 and related amortization of bond issuance costs (\$2,900,000). This increase was offset by the deferral of depreciation and interest that will be charged to expense in future years.

2009 Financial Highlights

Operating Revenues

- MWh's delivered to new and existing member communities increased 2.6%, while MWh's delivered to non-member entities decreased 11.1%, for a .003% net decrease in MWh's sold.
- Revenues from member sales activity increased \$7,100,000 (6.6%), with non-members sales activity decreasing \$5,800,000 (17.5%). These changes were due to an increase in energy demand from members, resulting in less energy available for sales to non-members.
- For 2009, the Board of Directors authorized the transfer of \$3,000,000 from the rate stabilization fund for rate setting purposes.

Operating Costs and Expenses

- MEAN experienced an increase in energy costs as it was necessary to purchase energy in the market to meet member demand due to the Sidney Tie being out of service for an extended period of time.
- The increase in other operating expenses relates to the MEAN Board of Directors approved contribution toward lawsuit expenses and partial settlement costs brought against the Nebraska Municipal Power Pool and some of its employees by a member community and another governmental agency. MEAN was not named as a defendant in the lawsuit.

Nonoperating Revenues (Expenses)

- MEAN has elected to defer certain costs related to its investment in the Walter Scott Energy Center Unit 4 (WSEC 4) and Black Hills Wygen Unit 1 generating plants as allowed by FASB ASC 980 as a means of stabilizing its rate structure. These costs, principally depreciation and interest, will be charged to expense in future years.

Capital Assets and Productive Capacity

MEAN's investment in productive capacity consists primarily of its ownership interest in two power generation plants: 1) a 6.67% ownership interest in the WSEC 4 generation plant, located in Council Bluffs, IA., which began commercial operations in June 2007 and 2) a 23.5% ownership interest in the Black Hills Wyoming, Inc. Wygen Unit 1 generation plant, located near Gillette, WY, beginning in January 2009. The Wygen Unit 1 plant began commercial operation in February 2003.

Property and equipment includes MEAN's home office building and furniture, fixtures and equipment.

Financing Activity

In January, 2009, MEAN issued bonds in the amount of \$78,680,000 to pay the acquisition costs of acquiring an undivided 23.5% interest in the Wygen Unit 1 plant from Black Hills Wyoming, Inc. and to provide for the redemption of MEAN's outstanding \$15,650,000 2003 Series B bonds.

During the bond issuance process, Standard and Poor's (S&P) assigned an A/stable rating to the 2009A series bonds and upgraded its ratings to A from A- on MEAN's other outstanding bonds. S&P affirmed these ratings in February 2010. Additionally, MEAN received A2/stable and A/Stable ratings from Moody's and Fitch, respectively; with both agencies affirming 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. All of MEAN's bonds are insured by a financial guaranty bond insurance policy.

MEAN is required by its bond covenants to maintain a debt service coverage of 1.0 times. Debt service coverage was 1.23, 1.41 and 1.19 for 2010, 2009 and 2008, respectively.

General Trends and Significant Events

The continued volatility in natural gas prices in recent years has prompted MEAN to continue its focus on the use of coal as the primary fuel for future generation additions. New coal fired generation units, such as WSEC 4 and Wygen Unit 1, are equipped with current Best Available Control Technology (BACT) that combines lowest emissions with low and stable fuel costs.

In addition to the 10.5 MW's of wind energy generated from its wind farm located near Kimball, NE, MEAN contracted for the purchase of 25.0 MW's of wind energy from other wind energy producers. With the addition of these contracts, wind represents 3% of MEAN's energy needs.

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 will develop, construct and operate Whelan Energy Center 2 (WEC 2), a 220 MW coal-fired generating unit. WEC 2 will be built adjacent to the existing 77 MW WEC 1 unit near Hastings, Nebraska. The anticipated commercial operation date of WEC 2 is 2011.

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 risks, 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 2010, the transfer into the Rate Stabilization Account was \$3,900,000. There was a transfer from this account of \$3,000,000 in 2009.

As a means of stabilizing its rate structure, MEAN has elected to defer certain costs related to its investment in the WSEC 4 and Black Hills Wygen Unit 1 generating plants as allowed by FASB ASC 980. These deferred costs, primarily depreciation and interest, will be charged off to expense in future years.

Summary of the Financial Statements

The financial statements, related notes and management's discussion and analysis provide information about MEAN's financial position and activities. The balance sheets present MEAN's assets, liabilities and net assets. The statements of revenue, expenses and changes in net assets present MEAN's operating results and changes in net assets. The statements of cash flows provide information about the flow of cash within MEAN by activity. These reports are for the two years ended March 31, 2010 and 2009. The notes to the financial statements provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Report of Management

MEAN has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that MEAN's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of MEAN in conformity with accounting principles generally accepted in the United States of America. If you have questions about this report or need additional financial information, contact our Director, Finance & Accounting, at the address shown below.

Municipal Energy Agency of Nebraska
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Municipal Energy Agency of Nebraska

Balance Sheets

March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 13,348,742	\$ 27,481,231
Short-term investments	12,313,000	12,773,222
Accounts receivable	16,753,706	12,683,022
Accrued interest receivable	189,422	153,824
Contracts receivable	-	37,000
Due from coalition members	10,446	41,125
Prepaid expenses and other	438,752	258,216
Productive capacity operation assets	5,556,613	4,938,424
Total current assets	<u>48,610,681</u>	<u>58,366,064</u>
Noncurrent Assets		
Long-term investments	20,335,000	5,691,000
Restricted investments	8,975,737	9,081,531
Contracts receivable	20,660	15,695
Productive capacity, net	159,018,274	165,211,371
Capital assets, net	1,420,849	1,474,314
Deferred financing costs	5,624,485	5,824,805
Costs recoverable from future billings	14,811,185	8,748,027
Other deferred charges	751,965	975,668
Total noncurrent assets	<u>210,958,155</u>	<u>197,022,411</u>
Total assets	<u>\$ 259,568,836</u>	<u>\$ 255,388,475</u>
Liabilities		
Current Liabilities		
Current maturities of long-term debt	\$ 2,620,000	\$ 1,625,000
Accounts payable and accrued expenses	11,117,297	11,379,255
Accrued interest payable	4,621,122	3,401,843
Due to coalition members	202,985	77,289
Total current liabilities	<u>18,561,404</u>	<u>16,483,387</u>
Long-term Debt		
Project revenue bonds	177,165,000	179,785,000
Unamortized cost of refunded debt	(5,371,290)	(6,094,586)
Total long-term debt	<u>171,793,710</u>	<u>173,690,414</u>
Deferred Revenue	<u>14,150,000</u>	<u>10,250,000</u>
Net Assets		
Invested in capital assets, net of related debt	8,964,156	10,628,327
Restricted for debt service	1,047,552	3,462,360
Unrestricted	45,052,014	40,873,987
Total net assets	<u>55,063,722</u>	<u>54,964,674</u>
Total liabilities and net assets	<u>\$ 259,568,836</u>	<u>\$ 255,388,475</u>

Municipal Energy Agency of Nebraska
Statements of Revenues, Expenses and
Changes in Net Assets
Years Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Electric energy sales	\$ 134,974,490	\$ 142,001,352
Transfer (provision) for rate stabilization	(3,900,000)	3,000,000
Other	<u>385,856</u>	<u>449,270</u>
Total operating revenues	<u>131,460,346</u>	<u>145,450,622</u>
Operating Expenses		
Electric energy costs	116,465,961	131,569,758
Administrative and general	5,054,723	5,656,068
Depreciation and amortization	<u>7,152,233</u>	<u>6,019,413</u>
Total operating expenses	<u>128,672,917</u>	<u>143,245,239</u>
Operating Income	<u>2,787,429</u>	<u>2,205,383</u>
Nonoperating Revenues (Expenses)		
Net costs to be recovered in future periods	6,063,158	4,967,928
Investment return	806,376	1,162,518
Interest expense	(9,242,244)	(6,485,112)
Amortization of deferred bond issuance costs	(1,033,267)	(894,141)
Other	<u>717,596</u>	<u>312,274</u>
Net nonoperating expenses	<u>(2,688,381)</u>	<u>(936,533)</u>
Increase in Net Assets	99,048	1,268,850
Net Assets, Beginning of Year	<u>54,964,674</u>	<u>53,695,824</u>
Net Assets, End of Year	<u>\$ 55,063,722</u>	<u>\$ 54,964,674</u>

Municipal Energy Agency of Nebraska
Statements of Cash Flows
Years Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Cash received from customers	\$ 131,321,697	\$ 143,026,587
Cash paid to suppliers and employees	(119,239,828)	(137,059,712)
Cash paid to coalition members	(3,234,521)	(3,335,746)
	<u>8,847,348</u>	<u>2,631,129</u>
Net cash provided by operating activities	<u>8,847,348</u>	<u>2,631,129</u>
Noncapital Financing Activities, Other Nonoperating Receipts	<u>717,813</u>	<u>310,418</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(1,625,000)	(4,365,000)
Payments for refunding of long-term debt	-	(15,650,000)
Proceeds from issuance of long-term debt	-	78,680,000
Additions of productive capacity	(750,249)	(55,190,010)
Proceeds from sale of capital assets	6,000	1,751
Purchase of capital assets	(112,282)	(155,399)
Additions to deferred charges	114,052	(2,552,449)
Interest paid	(8,022,965)	(6,289,706)
	<u>(10,390,444)</u>	<u>(5,520,813)</u>
Net cash used in capital and related financing activities	<u>(10,390,444)</u>	<u>(5,520,813)</u>
Investing Activities		
Interest received on investment securities	770,778	1,519,998
Purchase of investment securities	(43,154,000)	(28,808,310)
Proceeds from sales and maturities of investment securities	29,076,016	37,305,109
	<u>(13,307,206)</u>	<u>10,016,797</u>
Net cash provided by (used in) investing activities	<u>(13,307,206)</u>	<u>10,016,797</u>
Increase (Decrease) in Cash and Cash Equivalents	(14,132,489)	7,437,531
Cash and Cash Equivalents, Beginning of Year	<u>27,481,231</u>	<u>20,043,700</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,348,742</u>	<u>\$ 27,481,231</u>

Municipal Energy Agency of Nebraska
Statements of Cash Flows - Continued
Years Ended March 31, 2010 and 2009

	2010	2009
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 2,787,429	\$ 2,205,383
Depreciation and amortization	7,152,233	6,019,413
Deferred revenue	3,900,000	(3,000,000)
Changes in operating assets and liabilities		
Due to/from coalition members	156,374	358
Accounts receivable	(4,070,684)	603,927
Productive capacity operation assets	(618,189)	(1,171,311)
Prepaid expenses	(180,536)	(44,022)
Contracts receivable	32,035	(27,962)
Accounts payable and accrued expenses	(311,314)	(1,954,657)
	\$ 8,847,348	\$ 2,631,129
Net Cash Provided by Operating Activities		
	\$ 8,847,348	\$ 2,631,129
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	\$ 49,357	\$ 42,378

Municipal Energy Agency of Nebraska

Notes to Financial Statements

March 31, 2010 and 2009

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

Nature of Operations

Municipal Energy Agency of Nebraska (“MEAN” or “Agency”) was created pursuant to provisions of the Municipal Cooperative Financing 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.

Accounting Method

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 Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, MEAN has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements.

MEAN’s accounting policies also conform to FASB Accounting Standards Codification (“ASC”) 980 (formerly FASB Statement No. 71), *Regulated Operations*. Accordingly, ASC 980 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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

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 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 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, 2010 and 2009, cash equivalents consisted of money market funds and repurchase agreements.

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. Investments in repurchase agreements are carried at cost.

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. Management does not believe an allowance for doubtful accounts is necessary at March 31, 2010 and 2009, as there were no delinquent accounts.

Productive Capacity Operation Assets

Productive capacity operation assets related to the operation of Laramie River Station (LRS), Walter Scott Energy Center Unit 4 (WSEC 4) and Black Hills Wyoming's Wygen Unit 1 (Wygen 1) 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. Supply of electricity and associated revenues and expenses related to MEAN's participation in LRS, WS4 and Wygen 1 are included in the corresponding operating revenue and expense classifications in the statements of revenues, expenses and changes in net assets.

Municipal Energy Agency of Nebraska

Notes to Financial Statements

March 31, 2010 and 2009

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

Deferred Financing Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method.

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of net income until such costs are recoverable, in accordance with ASC 980. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

Capital Assets

Capital assets are recorded at cost at 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

Productive Capacity

Productive capacity includes the costs incurred for:

- A 1.67% interest in the 1,679 MW capacity of Laramie River Station (LRS) in eastern Wyoming.
- A 100% interest in a 10.5 MW wind farm near Kimball, Nebraska.
- A 6.67% interest in the WSEC 4's 808 MW Council Bluffs, Iowa Plant.
- A 23.5% interest in Black Hills Wyoming's 85 MW Gillette, Wyoming Wygen Unit 1.

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.

Municipal Energy Agency of Nebraska

Notes to Financial Statements

March 31, 2010 and 2009

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

Deferred Revenue

MEAN's Board of Directors established a Rate Stabilization Account within the General Reserve Fund pursuant to the provisions in the 2003 Series A and B bond resolutions to assist in maintaining stable electric rates for its member communities. A transfer of \$3,900,000 was made from electric energy revenues to the deferred revenue account in 2010 and a transfer of \$3,000,000 was made out of the deferred revenue account in 2009. As of March 31, 2010 and 2009, \$14,150,000 and \$10,250,000 is shown as deferred revenue on the accompanying balance sheets, respectively.

Unamortized Cost of Refunded Debt

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the life of the 2002 Series A Bonds. Amortization is included in operating costs and expenses and the unamortized balance is \$5,371,290 and \$6,094,586 as of March 31, 2010 and 2009, respectively.

Net Asset Classification

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets and costs recoverable from future billings, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. 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 invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

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

Income Taxes

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

Classification of Revenues

Operating revenues include revenues resulting from provision and delivery of electric supplies to customers. 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. 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. Power supply services provided by MEAN are not subject to state or Federal regulation.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. These reclassifications had no effect on the change in net assets.

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 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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 2: Deposits, Investments and Investment Return - Continued

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, and 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 Chairmen of the Board of Directors, Secretary-Treasurer of the Board of Directors or the MEAN Chief Executive Officer.

At March 31, 2010 and 2009, MEAN had the following investments, maturities and credit ratings:

	<u>Maturities in Years</u>					Credit Rating Moody's/ S&P
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	
March 31, 2010						
Cash held at trustee	\$ 641,958	\$ 641,958	\$ -	\$ -	\$ -	N/A
Repurchase agreements	5,138,859	5,138,859	-	-	-	Not rated
Money market mutual funds - US agencies	8,393,162	8,393,162	-	-	-	Aaa/AAA
US agency obligations	10,250,000	-	8,250,000	2,000,000	-	Aaa/AAA
Negotiable certificates of deposit	29,048,000	12,313,000	16,735,000	-	-	Not rated
Corporate bond (variable interest rate)	1,500,000	-	-	-	1,500,000	Not rated
	<u>\$ 54,971,979</u>	<u>\$ 26,486,979</u>	<u>\$ 24,985,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,500,000</u>	
March 31, 2009						
Money market mutual funds - US agencies	\$ 34,453,039	\$ 34,453,039	\$ -	\$ -	\$ -	Aaa/AAA
US agency obligations	11,017,278	7,417,278	3,600,000	-	-	Aaa/AAA
Negotiable certificates of deposit	7,940,975	7,349,975	591,000	-	-	Not rated
Corporate bond (variable interest rate)	1,500,000	-	-	-	1,500,000	Not rated
	<u>\$ 54,911,292</u>	<u>\$ 49,220,292</u>	<u>\$ 4,191,000</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>	

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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 2: Deposits, Investments and Investment Return - Continued

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. MEAN's investments in US agency obligations, negotiable certificates of deposit and corporate bonds at March 31, 2010 and 2009, 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 owner.

Concentration of Credit Risk

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.

	Portfolio Composition	
	March 31,	
	2010	2009
US sponsored agency obligations		
Federal National Mortgage Association	-	16.80 %

All of the money market mutual funds held at March 31, 2010 and 2009 are invested with MEAN's primary financial depository. This financial depository also serves as MEAN's Trustee and writer on the revolving line of credit discussed in Note 5.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 2: Deposits, Investments and Investment Return - Continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Carrying Value		
Deposits	\$ 500	\$ 115,692
Investments	<u>54,971,979</u>	<u>54,911,292</u>
	<u>\$ 54,972,479</u>	<u>\$ 55,026,984</u>

Included in the following balance sheet captions:

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 13,348,742	\$ 27,481,231
Short-term investments	12,313,000	12,773,222
Noncurrent Assets		
Long-term investments	20,335,000	5,691,000
Restricted long-term investments	<u>8,975,737</u>	<u>9,081,531</u>
	<u>\$ 54,972,479</u>	<u>\$ 55,026,984</u>

Investment Return

Investment return for the years ended March 31, 2010 and 2009 consisted of interest income of \$806,376 and \$1,162,518, respectively.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 3: Capital Assets

Capital assets at March 31, 2010 and 2009 consisted of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
March 31, 2010				
Buildings and improvements	\$ 2,384,120	\$ -	\$ -	\$ 2,384,120
Furniture, equipment and transportation equipment	2,081,602	161,639	(19,453)	2,223,788
	4,465,722	161,639	(19,453)	4,607,908
Less accumulated depreciation	(2,991,408)	(208,887)	13,236	(3,187,059)
Net capital assets	<u>\$ 1,474,314</u>	<u>\$ (47,248)</u>	<u>\$ (6,217)</u>	<u>\$ 1,420,849</u>
March 31, 2009				
Buildings and improvements	\$ 2,384,120	\$ -	\$ -	\$ 2,384,120
Furniture, equipment and transportation equipment	1,905,061	197,777	(21,236)	2,081,602
	4,289,181	197,777	(21,236)	4,465,722
Less accumulated depreciation	(2,776,290)	(236,354)	21,236	(2,991,408)
Net capital assets	<u>\$ 1,512,891</u>	<u>\$ (38,577)</u>	<u>\$ -</u>	<u>\$ 1,474,314</u>

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 4: Productive Capacity

Productive capacity at March 31, 2010 and 2009 consisted of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
March 31, 2010				
Productive capacity	\$ 192,467,981	\$ 750,249	\$ -	\$ 193,218,230
Construction in progress	404,224	-	-	404,224
	192,872,205	750,249	-	193,622,454
Less accumulated depreciation	(27,660,834)	(6,943,346)	-	(34,604,180)
Productive capacity, net	<u>\$ 165,211,371</u>	<u>\$ (6,193,097)</u>	<u>\$ -</u>	<u>\$ 159,018,274</u>
March 31, 2009				
Productive capacity	\$ 137,277,972	\$ 55,190,009	\$ -	\$ 192,467,981
Construction in progress	404,224	-	-	404,224
	137,682,196	55,190,009	-	192,872,205
Less accumulated depreciation	(21,877,776)	(5,783,058)	-	(27,660,834)
Productive capacity, net	<u>\$ 115,804,420</u>	<u>\$ 49,406,951</u>	<u>\$ -</u>	<u>\$ 165,211,371</u>

Productive capacity increased in 2009 due to MEAN's acquisition of a 23.5% undivided interest in the Black Hills Wyoming's 80 MW Wygen Unit 1 generation plant. This plant began commercial operation in February 2003. MEAN funded the acquisition of its ownership interest with the proceeds from the issuance of its 2009 Series A bonds as reported in Note 6.

Note 5: Credit Facility

MEAN has a \$10,000,000 revolving line of credit expiring October 31, 2011. During the years ended March 31, 2010 and 2009, 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.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 6: Long-term Debt

Long-term debt at March 31, 2010 and 2009 consisted of the following:

Description of Bonds	Principal Outstanding		Interest terms	Payments and Maturity	Early redemption
	2010	2009			
2009 A Serial, Power Supply System Revenue and Refunding Bonds	\$ 16,580,000	\$ 16,580,000	5.00% - 5.125%; payable April 1 and October 1	Annually April 1 through 2024	At the option of MEAN any time on or after April 1, 2019, in whole or in part at the principal amount thereof.
2009 A Term, Power Supply System Revenue and Refunding Bonds	62,100,000	62,100,000	5.125% - 5.375%; payable April 1 and October 1	April 1, 2029 and 2039; annual mandatory sinking fund payments 2029 through 2039	At the option of MEAN on or after April 1, 2029 by operation of sinking fund installments at the principal amount thereof.
2003 A Serial, Power Supply System Revenue Bonds	21,275,000	21,465,000	3.25% - 5.25%; payable April 1 and October 1	Annually April 1 through 2023	At the option of MEAN any time on or after April 1, 2013, in whole or in part at the principal amount thereof.
2003 A Term, Power Supply System Revenue Bonds	62,885,000	62,885,000	5.00%; payable April 1 and October 1	April 1, 2025, 2028, 2033 and 2036; annual mandatory sinking fund payments 2024 through 2036	At the option of MEAN on and after April 1, 2024 by operation of sinking fund installments at the principal amount thereof.
2002 A Serial, Power Supply System Revenue Refunding Bonds	16,945,000	18,380,000	4.75% - 5.50%; payable April 1 and October 1	Annually through April 1, 2017	At the option of MEAN any time on and after April 1, 2012, in whole or in part at the principal amount.
Total long-term debt	<u>\$ 179,785,000</u>	<u>\$ 181,410,000</u>			

Municipal Energy Agency of Nebraska

Notes to Financial Statements

March 31, 2010 and 2009

Note 6: Long-term Debt - Continued

Long-term debt activity for 2010 and 2009 is summarized as follows:

	1993 Minibonds	Series 2002 A	Series 2003 A	Series 2003 B	Series 2009 A	Total
Balance, March 31, 2008	\$ 3,000,000	\$ 19,745,000	\$ 84,350,000	\$ 15,650,000	\$ -	\$ 122,745,000
Add: new issuance	-	-	-	-	78,680,000	78,680,000
Less: principal payments	<u>(3,000,000)</u>	<u>(1,365,000)</u>	<u>-</u>	<u>(15,650,000)</u>	<u>-</u>	<u>(20,015,000)</u>
Balance, March 31, 2009	-	18,380,000	84,350,000	-	78,680,000	181,410,000
Less: principal payments	<u>-</u>	<u>(1,435,000)</u>	<u>(190,000)</u>	<u>-</u>	<u>-</u>	<u>(1,625,000)</u>
Balance, March 31, 2010	-	16,945,000	84,160,000	-	78,680,000	179,785,000
Less: current portion	<u>-</u>	<u>(1,495,000)</u>	<u>(205,000)</u>	<u>-</u>	<u>(920,000)</u>	<u>(2,620,000)</u>
Long-term portion	<u>\$ -</u>	<u>\$ 15,450,000</u>	<u>\$ 83,955,000</u>	<u>\$ -</u>	<u>\$ 77,760,000</u>	<u>\$ 177,165,000</u>

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 6: 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, 2010 are as follows:

Year Ending March 31,	Principal	Interest	Total
2011	\$ 2,620,000	\$ 9,206,737	\$ 11,826,737
2012	2,745,000	9,075,394	11,820,394
2013	2,885,000	8,935,368	11,820,368
2014	3,025,000	8,791,743	11,816,743
2015	3,175,000	8,640,969	11,815,969
2016-2020	19,895,000	40,521,274	60,416,274
2021-2025	20,455,000	35,221,775	55,676,775
2026-2030	29,870,000	28,419,114	58,289,114
2031-2035	22,895,000	19,746,857	42,641,857
2036-2040	72,220,000	8,426,769	80,646,769
	<u>\$ 179,785,000</u>	<u>\$ 176,986,000</u>	<u>\$ 356,771,000</u>

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.

Note 7: Electric Energy Sales

Electric energy sales for the years ended March 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Long-term total requirements	\$ 63,394,953	\$ 45,300,315
Limited-term total requirements	38,972,455	58,367,050
Market based firm sales	2,047,374	5,604,056
Service power	6,222,708	5,433,193
Interchange sales	24,337,000	27,296,738
	<u>\$134,974,490</u>	<u>\$142,001,352</u>

MEAN has entered into 67 Electrical Resources Pooling Agreements which consist of 39 Nebraska, 13 Colorado, 10 Iowa and three Wyoming municipalities, one public power district in Nebraska and one power authority in Colorado. Fifty-seven participants have entered into long-term total requirement contracts. The total requirement contracts extend to January 1, 2041.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 8: Power Supply Commitments

Pooling Agreements

Electrical Resources Pooling Agreements allow for the purchase and sale of energy between MEAN and other power project participants at both fixed and variable rates under the applicable service schedules. Fifty-seven bulk participants and 10 service participants have executed these agreements.

By execution of the Electrical Resources Pooling Agreements, 27 participants have committed total capacity and energy output (approximately 132.0 MW) to MEAN. The total capacity and energy output agreements continue through 2040 and provide that MEAN will pay a fixed cost based upon each member'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 rates set by the participants.

Power Supply Contracts

In addition to productive capacity provided by LRS, WS4 and Wygen Unit 1, purchased power contracts provide for the purchase of wholesale firm and nonfirm energy from several suppliers at negotiated rates. The agreements expire at various times through year 2029. Power is purchased primarily for resale to participants of the Electrical Resources Pooling Agreements.

Participation Agreements

MEAN has an agreement with the City of Hastings for a participating interest of approximately 5 MW (6.95%) of the total output of the Whelan Energy Center. The agreement provides MEAN will pay fixed monthly power costs to the City, plus a proportionate share of the facility's operating costs. The agreement is to continue until January 1, 2019, or until the facility is removed from commercial operations, whichever occurs last.

In September 2005, MEAN entered into an agreement with other utilities, creating an interlocal, Public Power Generation Agency (PPGA), for the construction of the Whelan Energy Center Unit 2, a 220 mW coal-fired power plant proposed to come on line in 2011. MEAN also signed a participation power agreement with PPGA for 80 mW (36.36%) power output for the life of the plant and under this agreement, each participant guarantees an allocated portion of PPGA's debt in the event that the plant is not fully operational at the time when the first principal payment comes due.

MEAN has an agreement with Heartland Consumers Power District (HCPD) for a participating interest of approximately 51.15 MW (19.55%) of the total output of the Wessington Springs Wind Project. The agreement provides MEAN will pay fixed monthly power costs to the District, plus a proportionate share of the facility's operating costs. The agreement is to continue until December 1, 2028, or until the facility is removed from commercial operations, whichever occurs last.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 9: 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.

A summary of amounts due to and from coalition members at March 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Due from NPGA	\$ 5,009	\$ 3,005
Due from ACE	<u>5,437</u>	<u>38,120</u>
Due from coalition members	<u>\$ 10,446</u>	<u>\$ 41,125</u>
Due to POOL	<u>\$ 202,985</u>	<u>\$ 77,289</u>
Due to coalition members	<u>\$ 202,985</u>	<u>\$ 77,289</u>

POOL billed MEAN approximately \$3,446,000 and \$3,340,000 for administrative services during 2010 and 2009, respectively. In 2010 and 2009, MEAN billed coalition members approximately \$148,000 and \$165,000, respectively, for the use of equipment and furniture.

Note 10: 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 11: Significant Estimates and Concentrations

Major Customers

Information regarding major customers is provided for those customers who individually exceed 10% of MEAN's annual sales or accounts receivable balances at year end.

At March 31, 2010 and 2009, approximately \$2,500,000 or 15% and \$1,400,000 or 11%, respectively, of total accounts receivable were owed by one customer.

Municipal Energy Agency of Nebraska
Notes to Financial Statements
March 31, 2010 and 2009

Note 11: Significant Estimates and Concentrations - Continued

Major Customers - Continued

For the years ended March 31, 2010 and 2009, approximately \$20,100,000 or 14% and \$34,150,000 or 24% of total energy sales were to one and two customers, respectively.

Current Economic Conditions

The current protracted economic decline continues to present public energy agencies with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Agency.

Although MEAN has not currently identified any specific circumstances which would cause the difficulties noted above, economic conditions could make it difficult for consumers to maintain demand and usage levels, which could have an adverse impact on the future operating results of the Agency.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Directors
Municipal Energy Agency of Nebraska
Lincoln, Nebraska

We have audited the financial statements of Municipal Energy Agency of Nebraska (MEAN) as of and for the year ended March 31, 2010, and have issued our report thereon dated June 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MEAN's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to MEAN's management in a separate letter dated June 3, 2010.

This report is intended solely for the information and use of the governing body, management and others within MEAN and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 3, 2010