

January 31, 2022

Board of Directors  
Municipal Energy Agency of Nebraska  
Lincoln, Nebraska

The purpose of this communication is to summarize various matters related to the planned scope and timing for the March 31, 2022 audit of the financial statements of Municipal Energy Agency of Nebraska.

Please refer to our contract dated January 5, 2022 for additional information and the terms of our engagement.

## Overview

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards for 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 of the financial statements to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. 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.

## Planned Scope & Timing

### Significant Risk Areas

We have preliminarily identified the following areas of significant risks of material misstatement due to error or fraud and of material noncompliance and propose to address these areas as described:

<b>Risk Area</b>	<b>Audit Approach</b>
Risk of management override of controls	Analyze accounting estimates for bias, test selected journal entries, evaluate business rationale for unusual transactions
Revenue recognition	Gain an understanding of revenue recognition policies including a review of applicable rate schedules, confirm selected customer balances, perform revenue cut-off testing, analytically test revenue for reasonableness
Regulatory accounting	Challenge the treatment of certain revenues and costs deferred for propriety with respect to Governmental Accounting Standards Board (GASB) Codification Section Re10, <i>Regulated Operations</i>

We welcome any input you may have regarding the information discussed above. We also welcome any insight you have related to any other risk areas, or other significant risk areas, that you believe warrant particular attention. We may identify additional risks as we complete our risk assessment procedures.

We propose the following timeline:

- Drafts of the financial statements and management letter, together with our letter regarding auditor responsibilities, will be furnished in June 2022
- Final reports will be issued in June 2022

## **Contacts**

We understand the appropriate person in the governance structure with whom to communicate is Mr. Tom Goulette, Chair of Board of Directors.

If for any reason, any member of the Board of Directors would need to contact us, please call Chris Lindner or Abby Dobson at (402) 473-7600.

## **Accounting & Auditing Matters**

The following matters are, in our judgment, relevant to the planned scope of the audit as well as your responsibilities in overseeing the financial reporting process.

### **Critical Accounting Policies and Practices**

- Capitalization of costs for productive capacity/capital assets
- Related party transactions (transactions with coalition members)
- Deferral of revenues and costs in accordance with GASB Codification Section, Re10, *Regulated Operations*
- Recording of regional transmission organization (RTO) market transactions

### **Critical Audit Areas**

- Related party transactions
- Revenue recognition

### **Alternative Treatments of Generally Accepted Accounting Principles (GAAP)**

- Regulatory accounting under GASB Codification Series, Re10, *Regulated Operations*

### **New Accounting Pronouncements**

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

## Consideration of Error or Fraud

One of the most common questions we receive from governing bodies is, “How do you address fraud in a financial statement audit?” Our responsibility, as it relates to fraud, in an audit of financial statements is addressed in auditing standards generally accepted in the United States of America.

Our audit approach includes such procedures as:

- Engagement team brainstorming
  - Discussions include how and where we believe the entity’s financial statements might be susceptible to material misstatement due to error or fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated
  - An emphasis is placed on the importance of maintaining the proper state of mind throughout the audit regarding the potential for material misstatement due to error or fraud
- Inquiries of management and others
  - Personnel interviewed include the Executive Director, the Director of Finance and Accounting, the Director of Wholesale Electric Operations, accounting personnel and others
  - Inquiries are directed towards the risks of error or fraud and whether personnel have knowledge of any fraud or suspected fraud affecting the entity
- Reviewing accounting estimates for bias
- Considering the risk that management may attempt to present disclosures to the financial statements in a manner that may obscure a proper understanding of the matters disclosed (for example, by using unclear or ambiguous language)
- Evaluating business rationale for significant unusual transactions
- Evaluating business rationale for significant transactions with related parties
- Incorporating an element of unpredictability into the audit each year

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This communication is intended solely for the information and use of those charged with governance, Board of Directors, and management and is not intended to be and should not be used by anyone other than these parties.

*BKD, LLP*

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