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Audit and Budget Committee
Texas Municipal Power Agency
Anderson, Texas

As part of our audit of the financial statements of Texas Municipal Power Agency (Agency) as of and for the year ended September 30, 2020, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Agency's significant accounting policies are described in *Note 2* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Other post-employment benefits
- Decommissioning costs

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Employee benefit and other postemployment benefit plans
- Commitments and contingencies
- Related parties
- Decommissioning costs and related Member receivables

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. An adjustment proposed was not recorded because it is not material.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- None

Proposed Audit Adjustment Not Recorded

- Attached is a summary of an uncorrected misstatement we noted during the current engagement and pertaining to the latest period presented that was determined by management to be immaterial but more than trivial to the financial statements as a whole.

<u>Auditor's Judgments About the Quality of the Agency's Accounting Principles</u>

No matters are reportable.

<u>Other Material Communications</u>

Listed below are other material communications between management and us related to the audit:

- Management representation letter *(attached)*
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

OTHER MATTERS

We observed the following matters and offer these comments and suggestions. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

<u>GASB Statement No. 84, *Fiduciary Activities*</u>

GASB Statement No. 84, *Fiduciary Activities* (GASB 84) establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019.

GASB Statement No. 87, *Leases*

In June 2017, GASB published Statement No. 87, *Leases*. This statement was the result of a multi-year project to reexamine the accounting and financial reporting for leases. The new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, GASB 87 includes the following accounting guidance for lessees and lessors:

Lessee Accounting: A lessee will recognize a liability measured at the present value of payments expected to be made for the lease term, and an intangible asset measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. A lessee will reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset will be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

Lessor Accounting**:** A lessor will recognize a receivable measured at the present value of the lease payments expected for the lease term and a deferred inflow of resources measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods. The lessor will reduce the receivable as payments are received and recognize an inflow of resources from the deferred inflow of resources in a systematic and rational manner over the term of the lease. A lessor will not derecognize the asset underlying the lease. There is an exception for regulated leases for which certain criteria are met, such as airport-aeronautical agreements.

The lease term used to measure the asset or liability is based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term also contemplates any lease extension or termination option that is reasonably certain of being exercised.

GASB 87 does not apply to leases for intangible assets, biological assets (i.e. timber and living plants and animals), service concession agreements, or leases in which the underlying asset is financed with conduit debt that is reported by the lessor. Additionally, leases with a maximum possible term of 12 months or less are excluded.

GASB 87 is effective for fiscal years beginning after June 15, 2021. Early application is encouraged. It is anticipated that leases would be recognized using the facts and circumstances in effect at the beginning of the period of implementation.

This communication is intended solely for the information and use of management, the Audit and Budget Committee, and others within the Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

December 1, 2020

Serving the cities of Bryan, Denton, Garland and Greenville

December 1, 2020

BKD, LLP
Certified Public Accountants
14241 Dall Parkway, Suite 1100
Dallas, Texas 75254

We are providing this letter in connection with your audits of our financial statements as of and for the years ended September 30, 2020 and 2019. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated May 1, 2020, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
   a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
   b) Additional information that you have requested from us for the purpose of the audit.
   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
   d) All minutes of meetings of the governing body held through the date of this letter.
   e) All significant contracts

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
   a) Misappropriation of assets.
   b) Misrepresented or misstated assets, liabilities, or net position.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule is immaterial to the financial statements taken as a whole.

9. We have no knowledge of any known or suspected:
   a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
   b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Agency received in communications from employees, customers, members, regulators, suppliers, or others.

11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it

can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

13. Except as reflected in the financial statements, there are no:
    a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
    b) Material transactions omitted or improperly recorded in the financial statements.
    c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
    d) Events occurring subsequent to the statement of net position date through the date of this letter requiring adjustment or disclosure in the financial statements.
    e) Agreements to purchase assets previously sold.
    f) Restrictions on cash balances or compensating balance agreements.
    g) Guarantees, whether written or oral, under which the Agency is contingently liable.

14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

15. We have no reason to believe the Agency owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and *Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

16. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

17. Adequate provisions and allowances have been accrued for any material losses from:
    a) Uncollectible receivables.
    b) Service commitments, including those unable to be fulfilled.
    c) Purchase commitments in excess of normal requirements or above prevailing market prices.

18. Except as disclosed in the financial statements, we have:
    a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges, or other encumbrances.

b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.

19. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

20. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.

21. The decommissioning liability has been recorded based on an independent study and management input. The liability has been reviewed and approved by the Members' of the Agency and they have committed to the payment of the liability.

22. With regard to deposit and investment activities:
    a) All deposit and investment transactions have been made in accordance with legal and contractual requirements.
    b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
    c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

23. With respect to any nonattest services you have provided us during the year, including preparation of a draft financial statements:
    a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
    b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
    c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
    d) We have evaluated the adequacy of the services performed and any findings that resulted.

24. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of net position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

We have considered all applicable conditions that are known and reasonable knowable as of the date of this letter for the purposes of performing management's going concern assessment. Based on management's going concern assessment, we have identified and disclosed conditions or events that raise substantial doubt about the Agency's ability to continue as a going concern. Management has identified and disclosed plans that have mitigated/will adequately mitigate the conditions or events that raised substantial doubt. Such plans included ceasing generation activities and Members being responsible for the outstanding decommissioning liability. These plans have been effectively implemented.

25. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and other postemployment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

26. With regard to supplementary information:
    a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
    b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
    c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
    d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
    e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

Bob Kahn

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Bob Kahn, General Manager

Lyndi Birkhead

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Lyndi Birkhead, Director of Finance and Support Services

Texas Municipal Power Agency

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	65,776,000		65,776,000	
Non-Current Assets & Deferred Outflows	302,388,000		302,388,000	
Current Liabilities	(62,809,000)		(62,809,000)	
Non-Current Liabilities & Deferred Inflows	(317,553,000)		(317,553,000)	
Current Ratio	1.047		1.047	
Total Assets & Deferred Outflows	368,164,000		368,164,000	
Total Liabilities & Deferred Inflows	(380,362,000)		(380,362,000)	
Total Net Position	12,198,000		12,198,000	
Operating Revenues	(54,237,000)		(54,237,000)	
Operating Expenses	19,102,000	(57,483)	19,044,517	-0.30%
Nonoperating (Revenues) Exp	31,860,000		31,860,000	
Change in Net Position	(3,275,000)	(57,483)	(3,332,483)	1.76%

Client: Texas Municipal Power Agency

Period Ending: September 30, 2020

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

			Assets & Deferred Outflows		Liabilities & Deferred Inflows						Net Effect on Following Year	
Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	*Current* DR (CR)	*Noncurrent* DR (CR)	*Current* DR (CR)	*Noncurrent* DR (CR)	Operating Revenues DR (CR)	Operating Expenses DR (CR)	Nonoperating (Revenues) Exp DR (CR)	Net Position DR (CR)	*Change in Net Position* DR (CR)	*Net Position* DR (CR)
Turn around effect of understating accounts payable in prior year			0	0	0	0	0	(57,483)	0	57,483	0	0
	Mine maintenance cost							(57,483)				
	Net position									57,483		
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
Total passed adjustments			0	0	0	0	0	(57,483)	0	57,483	0	0

Impact on Change in Net Position	**(57,483)**
Impact on Net Position	**0**