

SUMNER MUNICIPAL LIGHT & PLANT

An Enterprise Fund of the City of Sumner

FINANCIAL STATEMENTS

December 31, 2008

SUMNER MUNICIPAL LIGHT & PLANT

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

AUDITOR'S REPORT ON COMPLIANCE COMMENTS
AND RECOMMENDATIONS

December 31, 2008

SUMNER MUNICIPAL LIGHT & PLANT
An Enterprise Fund of the City of Sumner

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Sumner Municipal Light Plant
Sumner, Iowa

We have audited the accompanying financial statements of Sumner Municipal Light Plant, an enterprise fund of the City of Sumner, Iowa, as of December 31, 2008 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of utility management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audits 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 audit provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Sumner Municipal Light Plant enterprise fund and are not intended to present fairly the financial position of the City of Sumner, Iowa as of December 31, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than the United States generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present the complete financial position and results of operations of Sumner Municipal Light Plant in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Sumner Municipal Light Plant as of December 31, 2008, and the cash receipts and disbursements for the year then ended, in conformity with the basis of accounting described in Note 1.

To the Board of Trustees
Sumner Municipal Light Plant

In accordance with *Government Auditing Standards*, we have also issued our May 29, 2009 report on our consideration of Sumner Municipal Light Plant's overall internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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 audits.

The Management's Discussion and Analysis on pages 3 and 4 is not a required part of the 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The detailed schedules included as supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the Sumner Municipal Light Plant. The 2008 information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements for the year ended December 31, 2008, taken as a whole on the basis of accounting described in Note 1.

The Sumner Municipal Light Plant's financial statements for the years ended December 31, 2007-2004, which are not presented with the accompanying financial statements, were audited by other auditors whose reports expressed unqualified opinions on the respective financial statements on the basis of accounting described in Note 1. Their reports on the 2007-2004 schedule of cash transactions stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole, on the basis of accounting described in Note 1.

Madison, Wisconsin
May 29, 2009

Virchow, Krause & Company, LLP

SUMNER MUNICIPAL LIGHT & PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008 (Unaudited)

REPORTING THE LIGHT PLANT'S FINANCIAL ACTIVITIES

Proprietary funds account for the Light Plant's Enterprise Funds. Enterprise Funds are used to report business type activities. The Light Plant maintains three Enterprise Funds to provide separate information for the operations, meter deposit, and medical benefits funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Light Plant's cash balance increased from a year ago, from \$1.5 million to \$1.6 million. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets (Expressed in Thousands)

	Year Ended December 31,	
	2008	2007
Receipts:		
Program Receipts:		
Charges for services	\$ 1,390	\$ 1,548
General Receipts:		
Unrestricted investment earnings	47	74
Other general receipts	40	64
Total Receipts	<u>1,477</u>	<u>1,686</u>
Disbursements	<u>1,407</u>	<u>1,938</u>
Increase in cash basis net assets	70	(252)
CASH BASIS NET ASSETS – Beginning of Year	<u>1,529</u>	<u>1,781</u>
CASH BASIS NET ASSETS – END OF YEAR	<u><u>\$ 1,599</u></u>	<u><u>\$ 1,529</u></u>

BUDGETARY HIGHLIGHTS

Budgeted expenditures exceeded the actual amount during the year. Expenditures for purchase power of \$326,972 were less than budget and so caused this savings.

SUMNER MUNICIPAL LIGHT & PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2008

(Unaudited)

DEBT ADMINISTRATION

At December 31, 2008, the Light Plant had \$1,525,000 in revenue bonds, compared to \$1,595,000 last year, as shown below:

Outstanding Debt at Year End (Expressed in Thousands)

	Year Ended December 31,	
	2008	2007
Revenue Notes:		
Elec. Rev. Bonds-Series 2004 \$1,695,000 Jan. 1, 2004	\$ 1,525	\$ 1,595
Total Revenue Notes	<u>\$ 1,525</u>	<u>\$ 1,595</u>

Debt decreased as a result of making the required bond payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The market pricing of energy and fuel costs, which are very volatile, controls the state of the electric industry. The Budget for 2009 reflects some of these possible changes in costs. The goal of the Light Plant is to provide energy to the citizens of the service territory at the lowest possible rate and still meet their commitments. The budget categories are being expanded to give a better picture of accountability of dollars.

The Light Plant has a commitment to the Walter Scott #4 coal fire unit, which went online in 2007. In addition, the Light Plant has its scheduled upkeep that needs to be maintained.

The Board of Trustees and employees are committed to provide the best service available at the best possible rates and meeting citizens' energy needs and provide a balanced budget for 2009.

CONTACTING THE LIGHT PLANT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Light Plant's finances and to show the Light Plant's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michelle Bahe, Bookkeeper, Sumner, Iowa.

SUMNER MUNICIPAL LIGHT & PLANT

BASIC FINANCIAL STATEMENTS

SUMNER MUNICIPAL LIGHT PLANT

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the Year Ended December 31, 2008

	Disbursements	Program Receipts Charges for Service	Business- type Activities
FUNCTIONS/PROGRAMS			
Business-type activities			
Electric	\$ 1,406,912	\$ 1,390,026	\$ (16,886)
GENERAL RECEIPTS			
Unrestricted interest on investments	-	-	47,142
Miscellaneous	-	-	39,969
Total General Receipts and Transfers	-	-	87,111
Change in cash basis net assets	1,406,912	1,390,026	70,225
CASH BASIS NET ASSETS, Beginning of Year	-	-	1,529,151
CASH BASIS NET ASSETS, END OF YEAR	\$ 1,406,912	\$ 1,390,026	\$ 1,599,376
CASH BASIS NET ASSETS			
Restricted			
Debt service			\$ 154,643
Meter deposits refunds			36,100
Unrestricted			1,408,633
TOTAL CASH BASIS NET ASSETS			\$ 1,599,376

See accompanying notes to financial statements.

SUMNER MUNICIPAL LIGHT PLANT

STATEMENT OF CASH RECEIPTS, DISBURSEMENT AND CHANGES IN CASH BALANCES PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2008

	Enterprise Funds			Internal Service Fund
	Electric	Meter Deposit	Totals	Employee Health
OPERATING RECEIPTS				
Use of money and property	\$ 46,113	\$ 1,029	\$ 47,142	\$ -
Charges for services	1,372,026	-	1,372,026	18,000
Miscellaneous	31,777	7,789	39,566	403
Total Operating Receipts	<u>1,449,916</u>	<u>8,818</u>	<u>1,458,734</u>	<u>18,403</u>
OPERATING DISBURSEMENTS				
Business-type activities	<u>1,055,239</u>	<u>6,495</u>	<u>1,061,734</u>	<u>18,068</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>394,677</u>	<u>2,323</u>	<u>397,000</u>	<u>335</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)				
Debt service	(137,110)	-	(137,110)	-
Investment in an interest in CB4	(190,000)	-	(190,000)	-
Net nonoperating receipts (disbursements)	<u>(327,110)</u>	<u>-</u>	<u>(327,110)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>67,567</u>	<u>2,323</u>	<u>69,890</u>	<u>335</u>
CASH BALANCES, Beginning of Year	<u>1,493,002</u>	<u>33,777</u>	<u>1,526,779</u>	<u>2,372</u>
CASH BALANCES, END OF YEAR	<u>\$ 1,560,569</u>	<u>\$ 36,100</u>	<u>\$ 1,596,669</u>	<u>\$ 2,707</u>
CASH BASIS FUND BALANCES				
Reserve for debt service	\$ 154,643	\$ -	\$ 154,643	\$ -
Reserve for meter deposit refunds	-	36,100	36,100	-
Unreserved	<u>1,405,926</u>	<u>-</u>	<u>1,405,926</u>	<u>2,707</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 1,560,569</u>	<u>\$ 36,100</u>	<u>\$ 1,596,669</u>	<u>\$ 2,707</u>

See accompanying notes to financial statements.

SUMNER MUNICIPAL LIGHT PLANT

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENT AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2008

Total enterprise funds cash balances (page 6)	\$ 1,596,669
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*Amounts reported for business-type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the Light Plant's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business-type activities in the Statement of Net Assets.

2,707

Cash Basis Net Assets of Business-type Activities (page 5)	<u>\$ 1,599,376</u>
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Net change in cash balances (page 6)	\$ 69,890
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*Amounts reported for business-type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the Light Plant's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with business-type activities.

335

Change in Cash Balance of Business-type Activities (page 5)	<u>\$ 70,225</u>
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SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Sumner Municipal Light Plant is an enterprise fund of the City of Sumner, State of Iowa, located in Bremer and Fayette Counties. It has a separate governing body, the Board of Trustees, who are appointed for staggered six-year terms by the Mayor and approved by the City Council. The Light Plant maintains its own system of books, records and accounts apart from the City. The City is audited separately. The Light Plant provides electrical service to the citizens in and around Sumner.

B. BASIS OF PRESENTATION

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Light Plant. For the most part, the effect of inter-fund activity has been removed from this statement. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

The accounts of the Light Plant are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds are classified as follows in the financial statements:

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation, and maintenance of governmental facilities and services that are supported by user charges.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

B. BASIS OF PRESENTATION (cont.)

Plant Operation - Plant Operation is the general operating account of the Light Plant. All receipts, with the exception of meter deposits, are accounted for in this account. From this account are paid the general operating expenses, the fixed charges, and capital outlay for equipment.

Meter Deposits - Meter Deposits is utilized to account for monies received from electric consumers for meter deposits. Refunds, including interest, are paid from this account to electric consumers who have either discontinued service or have been current with their payments for twelve consecutive months.

Internal Service Fund - The Internal Service Fund is utilized to account for the financing of medical benefits to employees.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Light Plant maintains its financial records on the cash basis and the financial statements of the Light Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the United States generally accepted accounting principles. The measurement focus is the flow of cash receipts and disbursements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utility's financial statements to the extent that those standards are applicable to the cash basis of accounting. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. The utility has elected not to follow subsequent private-sector guidance.

D. BUDGETS AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Light Plant Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for the plant operation. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

E. ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

The Light Plant is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties.

F. REVENUES AND EXPENSES

The Light Plant distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services, producing and delivering goods in connection with the Light Plant's principal operations. The principal operating revenues of the utility are charges to customers for electric sales and services. Operating expenses include the cost of production, transmission, distribution, sales, services, community development, customer information, general and administrative services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Charges and Services

Utility billings are rendered and recorded monthly based on metered usage. Revenues are recorded when received.

Current electric rates were approved and placed into effect in December 2003.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS December 31, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS

The utility's deposits at year-end were entirely covered by Federal Depository Insurance or by collateral pledged to the State Sinking Fund as required by the Treasurer of State. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The carrying values of the utility's deposits and investments as of December 31, 2008 were comprised of the following:

	<u>2008</u>	<u>Risks</u>
Checking	\$ 407,069	Custodial risk
Petty cash	150	N/A
Certificates of deposit	<u>1,192,157</u>	Custodial risk
Total Deposits and Investments	<u>\$ 1,599,376</u>	

Reconciliation to financial statements

	<u>2008</u>
Unrestricted cash and investments	\$ 1,408,633
Restricted cash and investments	<u>190,743</u>
Total Deposits and Investments	<u>\$ 1,599,376</u>

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility.

The utility does not have any deposits exposed to custodial credit risk. Through the State of Iowa deposits are fully collateralized.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The utility does not have any investments.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS December 31, 2008

NOTE 3 – LONG-TERM OBLIGATIONS

REVENUE BONDS

The following revenue bonds have been issued:

Date	Purpose	Date	Maturity	Rates	Issue	Amount
1/1/2004	Finance the purchase of 1.0 MW of the 790MW MidAmerican Generating Plant	10/1/2011	10/1/2023	1.85-4.8%	\$ 1,695,000	\$ 1,525,000

The 2004 revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2009	\$ 70,000	\$ 65,080	\$ 135,080
2010	75,000	62,876	137,876
2011	80,000	60,362	140,362
2012	80,000	57,522	137,522
2013	85,000	54,562	139,562
2014-2018	500,000	217,004	717,004
2019-2023	635,000	93,326	728,326
Totals	\$ 1,525,000	\$ 610,732	\$ 2,135,732

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2008 was \$137,110. Total customer net revenues as defined for the same period was \$1,449,916. Annual principal and interest payments are expected to require 9.8% of revenues.

Long-term obligation activity for 2008 follows:

Debt Issue	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Current Portion
2004 Revenue Bonds	1,595,000	-	70,000	1,525,000	70,000

Substantially all utility revenue is pledged as security until the bonds are defeased.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS December 31, 2008

NOTE 3 – LONG-TERM OBLIGATIONS (cont)

BOND COVENANT DISCLOSURES

The following information is provided in compliance with the resolution creating the 2004 revenue bonds:

INSURANCE

The utility is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

The utility is covered under the following insurance policies at December 31, 2008:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
General Liability	\$7,750,000	04/01/2009

DEBT COVERAGE

Under terms of the resolution providing for the issue of revenue bonds, revenues less operating expenses (defined net earnings) must exceed 1.25 times the current annual debt service of the bonds. The coverage only includes revenue debt. The coverage requirement was met in 2008 as follows:

	<u>2008</u>
Operating revenues	\$ 1,372,026
Investment Income	46,113
Miscellaneous non-operating income	31,777
Less: Operation and maintenance expenses	<u>(1,055,239)</u>
Net Defined Earnings	<u>\$ 394,677</u>
Minimum Required Earnings per Resolution	\$ 137,110
Coverage factor	1.25%
Minimum Required Earnings	<u>\$ 223,290</u>
Actual Debt Coverage	2.88%

UTILITY BUDGET

The 2008 utility budget was prepared and approved as required by the bond resolutions.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS December 31, 2008

NOTE 4 – EMPLOYEES RETIREMENT SYSTEM

The Light Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the Light Plant is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Light Plant's contributions to IPERS for the years ended December 31, 2008, 2007 and 2006 were \$16,015, \$14,546, and \$13,425, respectively, equal to the required contributions for the year.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Walter Scott Jr. No. 4

During 2002, the utility along with other private and municipal utilities entered into agreements to jointly construct a coal generating plant in Council Bluffs, Iowa. Construction was completed in 2007 and placed into operation in June. The utility's share of ownership is 0.13% of the total capacity or about 1.0 MW's.

N.I.M.E.C.A

The Light Plant contracts with N.I.M.E.C.A. to provide for its power needs. During the years ended December 31, 2008 and 2007, amounts of \$326,973 and \$450,040, respectively, were paid for power pursuant to this agreement.

NOTE 6 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 – CLAIMS AND JUDGMENTS

The Light Plant has no pending litigation, claims, or assessments at December 31, 2008.

SUMNER MUNICIPAL LIGHT & PLANT

OTHER SUPPLEMENTARY INFORMATION

SUMNER MUNICIPAL LIGHT PLANT

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (CASH BASIS) PROPRIETARY FUNDS Year Ended December 31, 2008

	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
RECEIPTS							
Use of money and property	\$ 47,142	\$ -	\$ 47,142	\$ 15,000	\$ 15,000	\$ 32,142	214%
Charges for services	1,390,026	18,000	1,372,026	1,645,000	1,645,000	\$(272,974)	-17%
Miscellaneous	39,969	403	39,566	20,450	20,450	\$ 19,116	93%
Total Receipts	<u>1,477,137</u>	<u>18,403</u>	<u>1,458,734</u>	<u>1,680,450</u>	<u>1,680,450</u>	<u>(221,716)</u>	<u>-13%</u>
DISBURSEMENTS							
Business-type activities	<u>1,406,912</u>	<u>18,068</u>	<u>1,388,844</u>	<u>1,680,450</u>	<u>1,680,450</u>	<u>(291,606)</u>	<u>-17%</u>
Excess of receipts over disbursements	70,225	335	69,890				
BALANCES, Beginning of Year	<u>1,529,151</u>	<u>2,372</u>	<u>1,526,779</u>				
BALANCES, END OF YEAR	<u>\$ 1,599,376</u>	<u>\$ 2,707</u>	<u>\$ 1,596,669</u>				

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS
 ENTERPRISE FUND
 ELECTRIC UTILITIES - PLANT OPERATION
 Years Ended December 31, 2008, 2007, 2006, 2005 and 2004

	2008	2007	2006	2005	2004
RECEIPTS					
Charges for Services					
Sale of Electricity					
Residential	\$ 741,601	\$ 830,321	\$ 886,369	\$ 876,185	\$ 786,908
Commercial	630,425	699,594	728,158	748,533	672,002
Total Charges for Services	1,372,026	1,529,915	1,614,527	1,624,718	1,458,910
Miscellaneous					
Interest on investments	47,142	74,006	66,155	36,497	37,540
Cable	-	2,272	4,544	-	2,272
Refunds & reimbursements	-	6,348	4,991	10,619	12,052
Sale of labor	-	-	-	100	26,000
Sale of material, scrap & fuel	-	7,585	14,065	7,275	58,007
Penalties	3,514	3,840	4,601	3,867	2,408
NIMECA	21,433	28,512	1,288	40,980	-
Posting fees	6,721	6,309	5,500	4,450	2,713
Sales of truck	-	885	4,000	-	-
Insurance claims	-	-	-	430	-
Meter deposits	7,789	4,400	4,100	4,200	3,000
FEMA	-	-	-	701	4,547
Sale of bonds	-	-	-	-	1,674,309
Miscellaneous	109	504	11	12	120
Total Miscellaneous Receipts	86,708	134,661	109,255	109,131	1,822,968
TOTAL RECEIPTS	\$ 1,458,734	\$ 1,664,576	\$ 1,723,782	\$ 1,733,849	\$ 3,281,878
DISBURSEMENTS					
Business-Type Activities					
Plant Operation					
Power purchased	\$ 326,972	\$ 450,040	\$ 656,864	\$ 667,151	\$ 490,942
Salaries	26,839	23,308	22,218	21,272	15,291
Operating supplies	30,655	20,804	6,876	12,640	11,613
Insurance	35,468	33,914	29,532	36,221	41,765
Maintenance	12,367	22,379	4,191	5,021	2,681
Gas & fuel	14,145	36,609	32,759	23,614	10,758
Extensions					
Rebuild substation	15,422	133,148	-	-	-
Walter Scott #4	190,000	484,141	427,000	554,096	238,241
Total Plant Operation	651,868	1,204,343	1,179,440	1,320,015	811,291

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS
ENTERPRISE FUND
ELECTRIC UTILITIES - PLANT OPERATION
Years Ended December 31, 2008, 2007, 2006, 2005 and 2004

	2008	2007	2006	2005	2004
DISBURSEMENTS (cont.)					
Business-Type Activities (cont.)					
Plant Distribution					
Salaries	\$ 48,093	\$ 46,617	\$ 44,435	\$ 15,679	\$ 15,291
Truck expense	13,592	17,223	15,823	21,823	22,402
Maintenance labor	112,133	105,697	99,119	94,129	130,790
Stocks & supplies	64,534	79,066	58,017	69,031	71,286
Transmission costs	23,247	28,596	24,000	24,000	24,000
Extensions					
WWTP	-	-	-	-	69,816
Truck	-	-	-	48,575	-
Total Plant Distribution	261,599	277,199	241,394	273,237	333,585
Accounting and Collection					
Salaries	37,315	36,291	33,678	31,889	24,185
Office supplies	9,800	10,357	12,764	13,669	25,218
Meter reading labor	-	-	-	-	1,351
Collection fees	-	-	-	6,500	6,500
Miscellaneous	96	1,147	30	479	72
Extensions					
Computer & software	-	-	-	-	-
Total Accounting and Collec	47,211	47,795	46,472	52,537	57,326
Administration					
Salaries	32,189	32,835	32,231	31,358	30,583
Employee group insurance	76,564	74,760	80,168	84,072	77,864
Employee benefits	35,296	32,977	33,088	31,843	29,251
Medical benefits	18,000	18,000	16,500	12,000	15,300
Trustees	1,800	1,800	1,800	1,800	1,800
Legal & professional fees	7,303	9,397	7,213	9,095	5,555
Dues and meetings	5,402	5,068	5,684	4,600	5,082
Telephone	4,051	3,919	4,686	4,462	3,521
Supplies and miscellaneous	45,466	4,851	12,972	6,701	5,193
City of Sumner	5,323	13,709	10,000	5,000	-
Streetscape	-	-	64,725	11,357	-
Meter deposits returned	6,495	3,392	3,047	1,743	4,068
Merchandise for resale	13,017	3,972	9,046	2,968	121
Total Administration	250,906	204,680	281,160	206,999	178,338
Unallocated					
Sales tax remitted	40,150	42,435	50,127	58,313	52,252

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS
 ENTERPRISE FUND
 ELECTRIC UTILITIES - PLANT OPERATION
 Years Ended December 31, 2008, 2007, 2006, 2005 and 2004

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
DISBURSEMENTS (cont.)					
Bonds					
Interest & bond adm fees	\$ 67,110	\$ 70,190	\$ 72,893	\$ 41,282	\$ 60,361
Bond retirement	<u>70,000</u>	<u>70,000</u>	<u>65,000</u>	<u>65,000</u>	<u>60,000</u>
Total Bonds	<u>137,110</u>	<u>140,190</u>	<u>137,893</u>	<u>106,282</u>	<u>120,361</u>
 TOTAL DISBURSEMENTS	 <u>\$ 1,388,844</u>	 <u>\$ 1,916,642</u>	 <u>\$ 1,936,486</u>	 <u>\$ 2,017,383</u>	 <u>\$ 1,553,153</u>
 NET	 69,890	 (252,066)	 (212,704)	 (283,534)	 1,728,725
 BALANCE BEGINNING OF YEAR	 <u>1,526,779</u>	 <u>1,778,845</u>	 <u>1,991,549</u>	 <u>2,275,083</u>	 <u>546,358</u>
 BALANCE END OF YEAR	 <u>\$ 1,596,669</u>	 <u>\$ 1,526,779</u>	 <u>\$ 1,778,845</u>	 <u>\$ 1,991,549</u>	 <u>\$ 2,275,083</u>

SUMNER MUNICIPAL LIGHT PLANT

STATEMENT OF INDEBTEDNESS Year Ended December 31, 2008

	<u>Electric Revenue Bonds - Series 2004</u>
Date of issue	January 1, 2004
Interest rates	1.85 to 4.8%
Amount originally issued	\$ 1,695,000
Balance beginning of year	1,620,000
Issued during year	-
Redeemed during year	70,000
Balance end of year	1,525,000
Interest paid	67,110
Interest due and unpaid	16,778

SUMNER MUNICIPAL LIGHT PLANT

BOND AND NOTE MATURITIES December 31, 2008

<u>Year Ending December 31,</u>	<u>Revenue Bonds</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2009	3.150%	\$ 70,000
2010	3.350%	75,000
2011	3.550%	80,000
2012	3.700%	80,000
2013	3.850%	85,000
2014	4.000%	90,000
2015	4.150%	95,000
2016	4.300%	100,000
2017	4.400%	105,000
2018	4.500%	110,000
2018	4.600%	115,000
2020	4.650%	120,000
2021	4.700%	125,000
2022	4.750%	135,000
2023	4.800%	<u>140,000</u>
Total		<u>\$ 1,525,000</u>

SUMNER MUNICIPAL LIGHT PLANT

OFFICIALS
December 31, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Rath	Chairperson	January 1, 2010
Lester Teeling	Trustee	January 1, 2012
Peggy Becker	Trustee	January 1, 2014
Alan Junkers	Manager	Indefinite
Mike Stoessel	Treasurer	Indefinite
Michelle Bahe	Bookkeeper	Indefinite



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Sumner Municipal Light & Plant
Sumner, Iowa

We have audited the financial statements of Sumner Municipal Light & Plant, an enterprise fund of the city of Sumner, Iowa, as of and for the year ended December 31, 2008, and have issued our report thereon dated May 29, 2009. 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 Sumner Municipal Light & Plant's internal control over financial reporting as 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 Sumner Municipal Light & Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sumner Municipal Light & Plant's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

To the Board of Trustees
Sumner Municipal Light & Plant

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Sumner Municipal Light & Plant's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Sumner Municipal Light & Plant's financial statements that is more than inconsequential will not be prevented or detected by Sumner Municipal Light & Plant's internal control over financial reporting. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting and segregation of duties.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Sumner Municipal Light & Plant's internal controls.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider there to be material weaknesses in internal control over financial reporting, segregation of duties and other internal controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Sumner Municipal Light & Plant 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 on non compliance or other matters that are required to be reported under Governmental Auditing Standards.

We noted certain matters that we reported to management of Sumner Municipal Light & Plant in a separate letter dated May 29, 2009.

Sumner Municipal Light & Plant's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Sumner Municipal Light & Plant's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of Sumner Municipal Light & Plant's management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin
May 29, 2009

Virchow, Krause & Company, LLP

SUMNER MUNICIPAL LIGHT & PLANT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2008

Findings and Questioned Costs

There were no questioned costs noted as part of the audit.

The audit identified the following material weaknesses:

II-A-08 Financial Reporting – During the audit, we identified material amounts of CD's and interest income not recorded in the utility's financial statements. Adjustments were subsequently made by the utility to properly include these amounts in the financial statements.

Recommendation – The Sumner Light and Plant should implement procedures to ensure all such adjustments are identified and included in the utility's financial statements.

Management's Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

II-B-08 Segregation of Duties/Other Internal Controls – During the audit, we identified that proper segregation of duties was not in place. In addition controls were also lacking in regards to monthly reconciliations of significant accounts, payroll authorizations, review of cash collections, and documented journal entry review.

Recommendation – The utility should increase the amount of management's involvement in the day-to-day operation of the system and explore.

Management's Response – Management and the board will become more involved in day-to-day operations and continue to be aware of this condition realizing that responsibilities in a limited number of individuals is not desirable from a control point of view.

SUMNER MUNICIPAL LIGHT & PLANT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2008

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- 08-II-A Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2008.
- 08-II-B Certified Budget – Disbursements during the years ended December 31, 2008, did not exceed the amounts budgeted.
- 08-II-C Records of Accounts – The Meter Deposit and Employee Health Benefits accounts and the Certificate of Deposits are not being recorded within the general ledger accounting system of the Light Plant. Chapter 384.20 of the Code of Iowa states in part that “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” The Light Plant is required to follow this Code.
- Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all Light Plant accounts should all be recorded in the records of the Light Plant.
- Management’s Response – Management will look into a way to set up these accounts within the accounting system.
- 08-II-D Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 08-II-E Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 08-II-F Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure the coverage is adequate for current operations.
- 08-II-G Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 08-II-H Revenue Bonds – The utility has complied with all provisions of the 2004 Bond Covenants. All required payments to the reserve fund was made.
- 08-II-I Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utilities' investment policy.

SUMNER MUNICIPAL LIGHT & PLANT

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures,
Internal Controls, and Other Matters)

December 31, 2008

SUMNER MUNICIPAL LIGHT & PLANT

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To the Board of Trustees
Sumner Municipal Light & Plant
Sumner, Iowa

In planning and performing our audit of the financial statements of Sumner Municipal Light and Plant (SMLP) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the SMLP's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes material weaknesses:

- Segregation of Duties
- Financial Reporting
- Other Internal Controls

The document following this report describes the above deficiencies in greater detail.

This report is intended solely for the information and use of the board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Virchow, Krause & Company, LLP

Madison, Wisconsin
May 29, 2009

CURRENT YEAR COMMENTS

CONVERSION TO ACCRUAL ACCOUNTING

We strongly recommend the utility consider their options in converting to the accrual basis of accounting. This would mean the utility would begin to account for its financial operations on a basis that better matches revenues to the related expenditures made to produce those revenues. By utilizing accrual accounting, the utility will be able, to have an accurate measure of the utility's financial position or the investment the utility has in plant infrastructure to serve its clients. Cash basis accounting used by the utility now does not reflect accurately the outstanding obligations of the utility, nor does it reflect amounts owed to the utility.

Making financial decisions based on cash balances alone can be misleading. Accrual accounting records will also help to improve operational efficiencies as the need to maintain subsidiary records to determine your financial position will be minimized. This will free up staff time to do other important tasks.

Following are some of the key steps in transitioning from cash basis to accrual accounting:

- Establish a chart of accounts and funds that will provide the structure for accrual based accounting.
- Determine data sources for unrecorded assets, liabilities and fund equity accounts.
 - Existing subsidiary records
 - Manual records
 - Source documents
 - Engineer information
 - System maps
- Capture data for unrecorded assets, liabilities and fund equity accounts.
- Determine values for unrecorded assets, liabilities and fund equity accounts (this included general fixed assets and proprietary fund property, plant and equipment).
- Determine useful lives for property, plant and equipment (for proprietary fund types).
- Develop a fixed policy that includes:
 - Definition of fixed assets
 - Capitalization policies for fixed assets
 - Annual physical inventory procedures
 - Asset disposal procedures
 - Employee training on data input
 - Employee training on accrual accounting
 - Employee training on budgetary impacts of accrual accounting
 - Employee training for end user analysis of accrual based accounting data

Virchow, Krause & Company, LLP is available to assist utility staff in converting to the accrual basis of accounting.

CURRENT YEAR COMMENTS (cont.)

ACCOUNTING RECORDS

During the 2008 audit, we noted that accounting records were not formally maintained in the accounting system for several accounts, including the meter deposit fund, employee health fund and all certificates of deposit held by the Light Plant. As a result, the trial balance needed significant adjustments before it was ready for the annual audit.

In order to provide accurate detail of these general ledger accounts, we recommend the Light Plant maintain a subsidiary ledger (in the current accounting software) for each fund. These subsidiary records must be reconciled on a timely basis to ensure they are kept in agreement with the general ledger for the purpose of the financial statement audit.

ESTABLISH SEPARATE DEBT SERVICE FUNDS

Generally accepted accounting principles require the use of a separate debt service fund for the accumulation of resources for and payment of long-term debt. The Light Plant has met the requirement of meeting the funding requirements. However, a segregated cash and general ledger account has not been developed. Instead, debt service has been maintained within the overall general cash accounts.

We recommend that a separate cash or at a minimum general ledger account be created and passed for the 2009 calendar year. We are available to assist you should you have any questions during the process.

ECONOMIC CONDITIONS AND YOUR COMMUNITY

At the present time, economic conditions for the nation as a whole have declined. Your utility may or may not be impacted by the current economic conditions to a large extent, however, there are certain issues that utilities now face that have not been present in recent years.

Tightening Credit Market

A utility's ability to secure long-term financing is becoming more difficult as lenders have tightened the credit market.

Most revenue bonds contain debt covenants that require a certain level of operating income or cash that is set aside for future debt payments. Noncompliance with debt covenants may result in the inability to secure additional financing or may trigger bondholders to demand payment. In the case of Sumner Municipal Light and Plant, the utility has been meeting its bond coverage requirements. You should continue to be diligent in meeting coverage requirements, as not doing so can impact the ability to issue revenue bonds should the need arise for long-term financing for infrastructure projects.

Increase in Delinquencies

Utilities may experience a higher rate of delinquencies on utility bills as a result of increasing unemployment. Adopting a standard collection policy will help the utility apply a standardize process in this area.

CURRENT YEAR COMMENTS (cont.)

ECONOMIC CONDITIONS AND YOUR COMMUNITY (cont.)***Financial Management***

It is critical that organizations continue to practice sound financial management strategies to help weather the current economic conditions, such as:

- Preparing annual budgets that are realistic and accurate and monitoring the annual budget based on financial records that are accurate and understandable
- Forecasting cash flows as a result of changing economic conditions and developing a plan to address significant issues
- Forecasting capital needs and anticipated financing available
- Monitoring your utility's debt needs

Sumner Municipal Light Plant has been proactive in preparing budgets in the past. It is imperative that focus, in addition to monitoring the budget to actual results, continue to be monitored to maintain the ability to address issues in advance.

MATERIAL WEAKNESS

FINANCIAL REPORTING

We are required to comment on your internal controls. In theory, a properly designed system of internal controls consists of enough people, with sufficient training, to process and record monthly transactions, as well as prepare a complete set of annual financial statements including the implementation of new standards and all related disclosures.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures.
2. Prepare a complete set of year end financial statements with a very high level of accuracy. The new standard requires that the level of accuracy be such that there is only a remote likelihood that the auditor will discover a material change to the statements or footnotes. Thus, if the auditor discovers a material change, by definition, the system of internal control over financial reporting must have a material weakness.

Our finding of a material weakness in internal controls over financial reporting at SMLP is due to material journal entries made as a result of our audit procedures. These entries are discussed in more detail on page 8 of this letter.

If you would like to discuss this finding further, please contact the audit partner for this audit – Russell Hissom at 608.240.2361 or email rhissom@virchowkrause.com.

MATERIAL WEAKNESS (cont.)

SEGREGATION OF DUTIES

Our review of internal control disclosed a material weakness in that segregation of duties is not feasible due to the limited number of staff in the office. For example, the same person is involved in handling cash and bookkeeping.

This situation necessitates an increased amount of management involvement in the day-to-day operation of the system. This is not unusual in utilities of your size, but management should continue to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

OTHER INTERNAL CONTROLS

As a result of our audit procedures, we are able to provide to you the following information about where your controls over transactions either do not exist, or could be improved.

Below is a list of potential controls that should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. Our procedures identified that these controls do not currently exist for the entity of Sumner Municipal Light & Plant. Keep in mind that some of these controls may not be practical due to your staff size or other reasons. However, we are required to communicate these to you. In addition, as you make changes within your organization, and we continue to rotate audit procedures, more controls of this kind will likely be communicated to you.

CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS

1. Persons processing accounts payable are not always separate from those ordering or receiving goods or services (segregation of duties).
2. The accounts payable general ledger account and list of accounts payable are not reconciled regularly.

CONTROLS OVER PAYROLL

1. Persons preparing the payroll are not independent of other personnel duties or restricted from access to the payroll account (segregation of duties).
2. There is no authorization for new employees and changes to employee rates and data in the payroll system.
3. Payroll transactions are not supported by approved time records.
4. A reconciliation is not performed to verify that the total of the direct deposit plus the payroll checks posted against the bank account equals the payroll register total.

MATERIAL WEAKNESS (cont.)

OTHER INTERNAL CONTROLS (cont.)

CONTROLS OVER UTILITY BILLING AND RECEIPTING

1. The process for generating utility bills and maintaining the billing records is not independent of the collection function (segregation of duties).
2. There should be an independent review of batch entries for cash collections.
3. A monthly reconciliation should be prepared between the general ledger and the subsidiary ledgers.

In 2008, it was determined that a fraud took place at the city office from mid-2007 into 2008 involving misappropriations of utility collections. The city's auditor investigated this fraud and provided a report that documented the amount of fraud at an amount below the utility's threshold for the financial statements being materially misstated for the year ended December 31, 2008. We have been informed that the Board of Trustees has been made aware of this situation; however, it is our duty as auditors of the financial statements of the utility for the year ended December 31, 2008 to document this situation in this Report on Internal Controls.

CONTROLS OVER FINANCIAL REPORTING

1. Account reconciliations should be performed by someone independent of the processing of transactions in the account (segregation of duties).
2. Adjusting journal entries and supporting documentation are not reviewed and approved by an appropriate person who is not the original preparer.

Information Technology (IT) General Controls

The Sumner Municipal Light & Plant present software system lacks certain security features that, if operated improperly, would not allow for the identification of changes made to financial data after the original entry of such data. This is a situation that exists in many database software packages, including Microsoft Office Access, which is the basis for your software. Many of the system users may not possess the technical knowledge to operate the system in a manner that would impair the system's control integrity. However, it is possible that some users may possess the knowledge to circumvent the system's controls. Therefore, it is our judgment that there is more than remote possibility that an error could occur in amounts that are more than insignificant, and your controls would not detect them. Accordingly, we are required to communicate this fact to you.

From our review we have identified the following areas where controls should be reviewed and strengthened.

Information Technology System Development Life Cycle

Information technology enables organizations to achieve and manage programs and services. Information technology is a critical asset by which organizations like SMLP function. IT governance and IT practices often affect stakeholders, Boards, and senior managers.

MATERIAL WEAKNESS (cont.)

OTHER INTERNAL CONTROLS (cont.)

Information Technology System Development Life Cycle (cont.)

Based upon interviews and system observations, Virchow Krause found that SMLP does not have a written system development life cycle methodology. This methodology includes the design, acquisition/building and deployment of systems that support the achievement of business objectives. This process includes major changes to existing systems. This is where controls are designed and implemented to support initiating, recording, processing and reporting financial information and disclosure. Deficiencies in this area may have a significant impact on financial reporting and disclosure. For instance, without sufficient controls over application interfaces, financial information may not be complete or accurate.

Because Information Technology governance and management is directly related to an organization's ability to accomplish business objectives, it is recommended that a formal software acquisition policy be developed that outlines the process and requirements for acquiring any new software or to facilitate any internal software development projects.

Information Technology Change Management Process

Managing changes addresses how an organization modifies system functionality to help the business meet its financial reporting objectives. Deficiencies in this area could significantly impact financial reporting. For instance, changes to the programs that allocate financial data to accounts require appropriate approvals and testing prior to the change so that proper classification and reporting integrity is maintained.

Based upon interviews and system observations, Virchow Krause found that changes in the system require notification and approval by the data owner. However, the change is not required to be tested before it is implemented into the production environment.

We recommend that a formal change management procedure should be in place for all program changes, system changes, and maintenance. Allowing only a few specific personnel to have access to move programs into production. That list should be reviewed periodically. Additionally, segregation of duties should be maintained - developers should not also have rights to move into production.

Logical and Physical Access Security

SMLP is highly reliant on critical systems and the security that governs them. While logical restrictions are in place, best practices indicate that other steps are necessary to ensure the integrity of data. We recommend the following:

- Enforce a unique and private password and log-in for each employee
- Enforce length and character restrictions for passwords. Length and character restrictions provide an additional level of security to help protect data and systems. Best Practices suggest passwords should be changed every 45 days, require a minimum of 6 characters, require strong passwords (combination of alphanumeric, numeric and special characters), and passwords should be remembered so user's can't reuse recent passwords.

MATERIAL WEAKNESS (cont.)

OTHER INTERNAL CONTROLS (cont.)***Logical and Physical Access Security (cont.)***

- Enforce consistent use of a form (paper or electronic) to facilitate adding new employees, modifying existing employee access, and removing access for terminated employees. Approval must be granted by an authorized individual before any changes occur.
- Develop a process to periodically review list of user access rights to the network and significant applications for appropriateness. This is typically done on an annual basis and eliminates the possibility that user privileges are inappropriate for user responsibilities.
- Develop a process to monitor security events both internal and external. Active review of these security logs help IT correlate individual events into patterns and will help them better understand the security risk architecture.
- Develop a process to ensure the server room is locked at all times.
- Perform periodic back-ups of system data including testing of this data to ensure, if needed, it could be used.

COMMUNICATION TO THE BOARD OF TRUSTEES

This portion of the letter is to inform the board about significant matters related to the annual audit so that it can appropriately discharge its oversight responsibility of the financial reporting process.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or (those charged with governance) of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated January 7, 2009.

QUALITATIVE ASPECT OF ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by SMLP are described in Note 1 to the financial statements. We noted no transactions entered into by SMLP during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. As the utility's statements are prepared on the cash basis of accounting, there are no estimates in the financial statements.

FINANCIAL STATEMENT DISCLOSURES

The disclosures in the financial statements are neutral, consistent, and clear

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the SMLP's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. All audit adjustments we prepared were included in your financial statements.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

AUDIT ADJUSTMENTS (cont.)

The following is a summary of the entries made:

Record CD's and petty cash held outside of the accounting system	\$1,380,537
Record additional interest income	\$ 31,586
Record allocation of accounts payable remaining at year-end	\$ 5,103
Record allocation of payroll payable remaining at year-end	\$ 138

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SMLP financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

INDEPENDENCE

We are not aware of any relationships between Virchow, Krause & Company, LLP and the Company that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended December 31, 2008, Virchow, Krause & Company, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the SMLP and provided no services to the SMLP other than audit services provided in connection with the audit of the current year's financial statements, preparation of financial statements of SMLP and adjusting journal entries.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the SMLP's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

CLOSING

We appreciate the courtesy and assistance extended to us by your personnel during the audit. If you have any questions on our comments, or if we can offer our services in any other way during the year, please don't hesitate to contact us. Thank you for allowing us to serve you