

SUMNER MUNICIPAL LIGHT & PLANT

An Enterprise Fund of the City of Sumner, Iowa

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

AUDITORS' REPORT ON COMPLIANCE

As of and for the Year Ended December 31, 2011

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

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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, 2011 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2011, 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 accounting principles generally accepted in the United States of America. 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, 2011, and the cash receipts and disbursements for the year then ended, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated on May 14, 2012 on our consideration of Sumner Municipal Light & Plant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants including those systems applicable to Sumner Municipal Light and Plant. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Trustees
Sumner Municipal Light & Plant

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended December 31, 2010-2008, which are not presented with the accompanying financial statements, and expressed an unqualified opinion on those financial statements on the basis of accounting described in Note 1. In our opinion, the 2010-2008 information included in the detailed schedules as supplemental information has been subjected to the procedures applied in the prior year 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, 2010-2008, taken as a whole on the basis of accounting described in Note 1. The Sumner Municipal Light & Plant's financial statements for the year ended December 31, 2007, which is not presented with the accompanying financial statements, was audited by other auditors whose report expressed an unqualified opinion on the respective financial statements on the basis of accounting described in Note 1. Their reports on the 2007 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 14, 2012

SUMNER MUNICIPAL LIGHT & PLANT
MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMNER MUNICIPAL LIGHT & PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2011 and 2010
(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 two Enterprise Funds and one Internal Service Fund 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 decreased to \$1.4 million during the year. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets (Expressed in Thousands)

	Year Ended December 31,	
	2011	2010
Receipts:		
Program Receipts:		
Charges for services	\$ 1,598	\$ 1,436
General Receipts:		
Unrestricted investment earnings	12	17
Other general receipts	35	30
Total Receipts	<u>1,645</u>	<u>1,483</u>
Disbursements	<u>1,772</u>	<u>1,509</u>
Increase (decrease) in cash basis net assets	(127)	(26)
CASH BASIS NET ASSETS – Beginning of Year	<u>1,485</u>	<u>1,511</u>
CASH BASIS NET ASSETS – END OF YEAR	<u><u>\$ 1,358</u></u>	<u><u>\$ 1,485</u></u>

BUDGETARY HIGHLIGHTS

Budgeted program receipts exceeded the actual amount during the year. Receipts for services were \$285,000 less than the budget as a result of decreased usage in 2011.

SUMNER MUNICIPAL LIGHT & PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2011 and 2010
(Unaudited)

DEBT ADMINISTRATION

At December 31, 2011, the Light Plant had \$1,300,000 in revenue bonds, compared to \$1,380,000 last year, as shown below:

Outstanding Debt at Year End
(Expressed in Thousands)

	Year Ended December 31,	
	2011	2010
Revenue Notes:		
Elec. Rev. Bonds-Series 2004 \$1,695,000 Jan. 1, 2004	\$ 1,300	\$ 1,380
Total Revenue Notes	\$ 1,300	\$ 1,380

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 2012 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 2012.

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, 2011

	Disbursements	Program Receipts Charges for Service	Business- type Activities
FUNCTIONS/PROGRAMS			
Business-type activities			
Electric	\$ 1,771,669	\$ 1,598,075	\$ (173,594)
GENERAL RECEIPTS			
Unrestricted interest on investments	-	-	11,610
Miscellaneous	-	-	35,298
Total General Receipts and Transfers	-	-	46,908
Change in cash basis net assets	1,771,669	1,598,075	(126,686)
CASH BASIS NET ASSETS, Beginning of Year	-	-	1,484,669
CASH BASIS NET ASSETS, END OF YEAR	\$ 1,771,669	\$ 1,598,075	\$ 1,357,983
CASH BASIS NET ASSETS			
Restricted			
Debt service			\$ 137,522
Meter deposits refunds			42,445
Unrestricted			1,178,016
TOTAL CASH BASIS NET ASSETS			\$ 1,357,983

See accompanying notes to financial statements.

SUMNER MUNICIPAL LIGHT & PLANT

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

As of and for the Year Ended December 31, 2011

	Enterprise Funds			Internal Service Fund
	Electric	Meter Deposit	Totals	Employee Health
OPERATING RECEIPTS				
Use of money and property	\$ 11,240	\$ 78	\$ 11,318	\$ 292
Charges for services	1,568,075	-	1,568,075	30,000
Miscellaneous	30,215	5,083	35,298	-
Total Operating Receipts	<u>1,609,530</u>	<u>5,161</u>	<u>1,614,691</u>	<u>30,292</u>
OPERATING DISBURSEMENTS				
Business-type activities	<u>1,298,992</u>	<u>2,996</u>	<u>1,301,988</u>	<u>30,599</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>310,538</u>	<u>2,165</u>	<u>312,703</u>	<u>(307)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)				
Debt service	(140,363)	-	(140,363)	-
Investment in an interest in CB4	(298,719)	-	(298,719)	-
Net nonoperating receipts (disbursements)	<u>(439,082)</u>	<u>-</u>	<u>(439,082)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(128,544)</u>	<u>2,165</u>	<u>(126,379)</u>	<u>(307)</u>
CASH BALANCES, Beginning of Year	<u>1,442,794</u>	<u>40,280</u>	<u>1,483,074</u>	<u>1,595</u>
CASH BALANCES, END OF YEAR	<u>\$ 1,314,250</u>	<u>\$ 42,445</u>	<u>\$ 1,356,695</u>	<u>\$ 1,288</u>
CASH BASIS FUND BALANCES				
Reserve for debt service	\$ 137,522	\$ -	\$ 137,522	\$ -
Reserve for meter deposit refunds	-	42,445	42,445	-
Unreserved	<u>1,176,728</u>	<u>-</u>	<u>1,176,728</u>	<u>1,288</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 1,314,250</u>	<u>\$ 42,445</u>	<u>\$ 1,356,695</u>	<u>\$ 1,288</u>

See accompanying notes to financial statements.

SUMNER MUNICIPAL LIGHT & PLANT

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

As of and for the Year Ended December 31, 2011

Total enterprise funds cash balances (page 6)	\$ 1,356,695
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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.

1,288

Cash Basis Net Assets of Business-type Activities (page 5)	\$ <u>1,357,983</u>
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Net change in cash balances (page 6)	\$ (126,379)
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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.

(307)

Change in Cash Balance of Business-type Activities (page 5)	\$ <u>(126,686)</u>
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SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

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.

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.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

The Light Plant has not adopted a formal investment policy.

Restricted Assets

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

When both restricted and unrestricted resources are available for use, it is the Light Plant's policy to use restricted resources first, then unrestricted resources as they are needed.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 October, 2010.

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, 2011 were comprised of the following:

	<u>2011</u>	<u>Risks</u>
Checking	\$ 356,747	Custodial credit risk
Petty cash	150	N/A
Certificates of deposit	<u>1,001,086</u>	Custodial credit risk
Total Deposits and Investments	<u>\$ 1,357,983</u>	

Reconciliation to financial statements:

	<u>2011</u>
Unrestricted cash and investments	\$ 1,178,016
Restricted cash and investments	<u>179,967</u>
Total Deposits and Investments	<u>\$ 1,357,983</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.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

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.

NOTE 3 – LONG-TERM OBLIGATIONS

REVENUE BONDS

The following revenue bonds have been issued:

Date	Purpose	Call Date	Final Maturity	Interest Rates	Original Issue	Outstanding 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	\$ 1,300,000

The 2004 revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2012	\$ 80,000	\$ 57,522	\$ 137,522
2013	85,000	54,562	139,562
2014	90,000	51,290	141,290
2015	95,000	47,690	142,690
2016	100,000	43,748	143,748
2017-2021	575,000	147,750	722,750
2022-2023	275,000	19,852	294,852
Totals	\$ 1,300,000	\$ 422,414	\$ 1,722,414

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 2011 was \$140,363. Total customer net revenues as defined for the same period was \$1,609,530. Annual principal and interest payments are expected to require 8.9% of revenues.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

NOTE 3 – LONG-TERM OBLIGATIONS (cont.)

Long-term obligation activity for 2011 follows:

Debt Issue	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Current Portion
2004 Revenue Bonds	\$ 1,380,000	\$ -	\$ 80,000	\$ 1,300,000	\$ 80,000

BOND COVENANT DISCLOSURES

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

Insurance and 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 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, 2011:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
General Liability	\$8,826,949	06/07/2012

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 2011 as follows:

	<u>2011</u>
Operating revenues	\$ 1,568,075
Investment Income	11,318
Miscellaneous operating income	35,298
Less: Operation and maintenance expenses*	<u>(1,242,946)</u>
Net Defined Earnings	<u>\$ (371,745)</u>
Minimum Required Earnings per Resolution	\$ 140,363
Coverage factor	<u>1.25%</u>
Minimum Required Earnings	<u>\$ 175,454</u>
Actual Debt Coverage	<u>2.65</u>

*excludes expenses associated with equipment replacement, meter deposits returned and merchandise for resale.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

NOTE 3 – LONG-TERM OBLIGATIONS (cont.)

BOND COVENANT DISCLOSURES (cont.)

Utility Budget

The 2011 utility budget was prepared and approved as required by the bond resolutions.

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 5.38% of their annual salary and the Light Plant is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Light Plant's contributions to IPERS for the years ended December 31, 2011, 2010, and 2009 were \$21,572, \$18,944, and \$17,454, 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 year ended December 31, 2011, the amount of \$390,607 was paid for power pursuant to this agreement.

NOTE 6 – CLAIMS AND JUDGMENTS

The Light Plant has no pending litigation, claims, or assessments at December 31, 2011.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

NOTE 7 – SUBSEQUENT EVENTS

The utility evaluated subsequent events through May 14, 2012 the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

DEBT ISSUE

On January 25th, 2012, Sumner Municipal Light Plant issued \$1,335,000.00 of revenue debt to refinance the 2004 Electric Revenue Bonds. The debt is payable over 10 years and bears a net interest rate of 2.08%.

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
 For the Year Ended December 31, 2011

	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Budgeted Final	Final to Net Variance	Variance as % of Final Budget
RECEIPTS							
Use of money and property	\$ 11,610	\$ 292	\$ 11,318	\$ 10,000	\$ 10,000	\$ 1,318	13%
Charges for services	1,598,075	30,000	1,568,075	1,853,400	1,853,400	(285,325)	-15%
Miscellaneous	35,298	-	35,298	31,720	31,720	3,578	11%
Total Receipts	<u>1,644,983</u>	<u>30,292</u>	<u>1,614,691</u>	<u>1,895,120</u>	<u>1,895,120</u>	<u>(280,429)</u>	<u>-15%</u>
DISBURSEMENTS							
Business-type activities	<u>1,771,669</u>	<u>30,599</u>	<u>1,741,070</u>	<u>1,895,120</u>	<u>1,895,120</u>	<u>(154,050)</u>	<u>-8%</u>
Deficiency of receipts under disbursements	(126,686)	(307)	(126,379)				
BALANCES, Beginning of Year	<u>1,484,669</u>	<u>1,595</u>	<u>1,483,074</u>				
BALANCES, END OF YEAR	<u>\$ 1,357,983</u>	<u>\$ 1,288</u>	<u>\$ 1,356,695</u>				

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS ENTERPRISE FUND ELECTRIC UTILITIES - PLANT OPERATION

For the Years Ended December 31, 2011, 2010, 2009, 2008, and 2007

	2011	2010	2009	2008	2007
RECEIPTS					
Charges for Services					
Sale of Electricity					
Residential	\$ 871,328	\$ 794,725	\$ 722,443	\$ 741,601	\$ 830,321
Commercial	696,747	641,557	619,861	630,425	699,594
Total Charges for Services	1,568,075	1,436,282	1,342,304	1,372,026	1,529,915
Miscellaneous					
Interest on investments	11,318	17,212	26,197	47,142	74,006
Cable	-	-	-	-	2,272
Refunds and reimbursements	-	-	-	-	6,348
Sale of material, scrap and fuel	-	-	-	-	7,585
Penalties	3,649	3,260	3,055	3,514	3,840
NIMECA	13,086	13,929	27,530	21,433	28,512
Posting fees	8,750	7,840	7,267	6,721	6,309
Sales of truck	-	-	-	-	885
Meter deposits	5,083	4,361	5,500	7,789	4,400
Miscellaneous	4,730	496	107	109	504
Total Miscellaneous Receipts	46,616	47,098	69,656	86,708	134,661
TOTAL RECEIPTS	\$ 1,614,691	\$ 1,483,380	\$ 1,411,960	\$ 1,458,734	\$ 1,664,576
DISBURSEMENTS					
Business-Type Activities					
Plant Operation					
Power purchased	\$ 390,607	\$ 347,674	\$ 321,491	\$ 326,972	\$ 450,040
Salaries	26,969	26,236	25,374	26,839	23,308
Operating supplies	18,095	36,166	47,555	30,655	20,804
Insurance	39,350	37,369	31,706	35,468	33,914
Maintenance	22,286	11,675	7,874	12,367	22,379
Gas and fuel	1,469	1,100	1,295	14,145	36,609
Extensions					
Rebuild substation	-	-	-	15,422	133,148
Walter Scott #4	298,719	170,087	130,000	190,000	484,141
Total Plant Operation	797,495	630,306	565,295	651,868	1,204,343

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS ENTERPRISE FUND

ELECTRIC UTILITIES - PLANT OPERATION

For the Years Ended December 31, 2011, 2010, 2009, 2008, and 2007

	2011	2010	2009	2008	2007
DISBURSEMENTS (cont.)					
Business-Type Activities (cont.)					
Plant Distribution					
Salaries	\$ 53,937	\$ 52,471	\$ 50,749	\$ 48,093	\$ 46,617
Truck expense	20,078	18,548	21,213	13,592	17,223
Maintenance labor	123,056	119,420	115,576	112,133	105,697
Stocks and supplies	133,590	121,891	75,888	64,534	79,066
Transmission costs	30,704	25,157	34,000	23,247	28,596
Extensions					
Equipment replacement	46,282	22,276	155,940	-	-
Total Plant Distribution	407,647	359,763	453,366	261,599	277,199
Accounting and Collection					
Salaries	41,996	41,394	39,086	37,315	36,291
Office supplies	17,183	15,943	13,888	9,800	10,357
Miscellaneous	226	173	236	96	1,147
Total Accounting and Collection	59,405	57,510	53,210	47,211	47,795
Administration					
Salaries	37,557	36,702	35,453	32,189	32,835
Employee group insurance	94,667	88,886	81,614	76,564	74,760
Employee benefits	42,889	40,004	38,886	35,296	32,977
Medical benefits	30,000	23,000	21,000	18,000	18,000
Trustees	1,800	1,800	1,800	1,800	1,800
Legal and professional fees	17,325	18,635	12,709	7,303	9,397
Dues and meetings	5,963	5,454	4,156	5,402	5,068
Telephone	4,957	4,713	4,773	4,051	3,919
Supplies and miscellaneous	13,197	24,096	4,784	45,466	4,851
City of Sumner	30,290	29,413	32,396	5,323	13,709
Meter deposits returned	2,996	3,150	3,509	6,495	3,392
Merchandise for resale	9,764	4,804	11,862	13,017	3,972
Total Administration	291,405	280,656	252,942	250,906	204,680
Unallocated					
Sales tax remitted	44,755	42,703	40,227	40,150	42,435

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS ENTERPRISE FUND ELECTRIC UTILITIES - PLANT OPERATION

For the Years Ended December 31, 2011, 2010, 2009, 2008, and 2007

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
DISBURSEMENTS (cont.)					
Bonds					
Interest and bond fees	\$ 60,363	\$ 62,875	\$ 65,080	\$ 67,110	\$ 70,190
Bond retirement	<u>80,000</u>	<u>75,000</u>	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>
Total Bonds	<u>140,363</u>	<u>137,875</u>	<u>135,080</u>	<u>137,110</u>	<u>140,190</u>
 TOTAL DISBURSEMENTS	 <u>\$ 1,741,070</u>	 <u>\$ 1,508,814</u>	 <u>\$ 1,500,120</u>	 <u>\$ 1,388,844</u>	 <u>\$ 1,916,642</u>
 NET	 \$ (257,691)	 \$ (96,855)	 \$ (41,386)	 \$ 275,732	 \$ (1,916,642)
 BALANCE BEGINNING OF YEAR	 <u>(306)</u>	 <u>96,549</u>	 <u>137,935</u>	 <u>(137,797)</u>	 <u>1,778,845</u>
 BALANCE END OF YEAR	 <u>\$ (257,996)</u>	 <u>\$ (306)</u>	 <u>\$ 96,549</u>	 <u>\$ 137,935</u>	 <u>\$ (137,797)</u>

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULE OF INDEBTEDNESS As of and for the Year Ended December 31, 2011

	<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	1,380,000
Issued during year	-
Redeemed during year	80,000
Balance end of year	1,300,000
Interest paid	60,362
Interest due and unpaid	14,381

SUMNER MUNICIPAL LIGHT PLANT

BOND AND NOTE MATURITIES
As of December 31, 2011

<u>Year Ending</u> <u>December 31</u>	<u>Revenue Bonds</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
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
2019	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>\$ 1,300,000</u>

SUMNER MUNICIPAL LIGHT PLANT

OFFICIALS
As of December 31, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Rath	Chairperson	January 1, 2016
Loren Gitch	Trustee	January 1, 2018
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, 2011, and have issued our report thereon dated May 14, 2012. As noted in our opinion on the financial statements, the financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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

Management of the Sumner Municipal Light & Plant is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sumner Municipal Light & Plant's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sumner Municipal Light & Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sumner Municipal Light & Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These material weaknesses are items II-A-11, II-B-11 and II-C-11.

To the Board of Trustees
Sumner Municipal Light & Plant

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 noncompliance 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 14, 2012.

Sumner Municipal Light & Plant's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.

Baker Tilly Vinluan Krause, LLP

Madison, Wisconsin
May 14, 2012

SUMNER MUNICIPAL LIGHT & PLANT

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2011

FINDINGS

The audit identified the following material weaknesses:

- II-A-11 **Criteria:** Statement on Auditing Standards (SAS) No. 115 requires auditors to report a deficiency if SMLP is not able to prepare its financial statements or has material adjusting journal entries.

Condition: The 2011 financial statements were prepared during the course of the audit by Baker Tilly Virchow Krause, LLP.

Cause: As a result of the size of the entity, SMLP has elected for the auditors to prepare the financial statements so operations can continue as normal on a day to day basis.

Effect: SMLP's financial records may be materially misstated before the annual audit is completed.

Recommendation: The utility should consider becoming more involved in the preparation of the annual financial statements in future years.

Management's Response: Management will consider this recommendation in future years.

- II-B-11 **Criteria:** According to Statement on Auditing Standards (SAS) Nos. 104-111, collectively known as the risk assessment standards, sufficient internal accounting controls should be in place that mitigate the risk of material misstatement in the financial records due to fraud or error.

Condition: During the audit, we identified that proper segregation of duties was not in place.

Cause: During 2011 SMLP did not have the resources required to adequately segregate all accounting functions at all times.

Effect: Due to the lack of segregation, there is a risk that material misstatements due to fraud or error may go undetected in SMLP's financial records.

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

Management's Response: As staffing levels permit, management will become more involved in day-to-day activities, realizing that responsibilities in a limited number of individuals is not desirable from a control point of view.

- II-C-11 **Criteria:** According to Statement on Auditing Standards (SAS) Nos. 104-111, collectively known as the risk assessment standards, sufficient internal accounting controls should be in place that mitigate the risk of material misstatement in the financial records due to fraud or error.

Condition: During the audit, we identified the following areas of internal control could be improved:

SUMNER MUNICIPAL LIGHT & PLANT

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2011

CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS

1. The accounts payable general ledger account and list of invoices included in accounts payable are not formally reconciled. Considering the cash basis of accounting is followed this account should be regularly reviewed to ensure the general ledger account is cleared to zero after each disbursement is made.

CONTROLS OVER UTILITY BILLING AND RECEIPTING

1. A formal review of new customers and billing rates is not being performed by a second individual after the data is entered in the system.

CONTROLS OVER FINANCIAL REPORTING

1. Journal entries are not prepared by someone independent of processing transactions in the account.

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 users cannot reuse recent passwords.
- > Develop a process to ensure the server room is locked at all times.

Cause: During 2011 SMLP did not have the resources required to implement controls at the ideal levels to prevent these weaknesses.

Effect: Due to the lack of controls, there is a risk that material misstatements due to fraud or error may go undetected in SMLP's financial records.

Recommendation: We recommend that these areas be reviewed and strengthened.

Management's Response: Management will consider enhancing these controls in future years, 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 RESPONSES For the Year Ended December 31, 2011

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- 11-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, 2011.
- 11-II-B Certified Budget – Disbursements during the year ended December 31, 2011 did not exceed the amounts budgeted.
- 11-II-C 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.
- 11-II-D Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- 11-II-E Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 11-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 ensure the coverage is adequate for current operations.
- 11-II-G Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 11-II-H Revenue Bonds – The utility has complied with all provisions of the 2004 Bond Covenants. All required payments to the reserve fund were made.
- 11-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 utility's investment policy.

SUMNER MUNICIPAL LIGHT & PLANT

REPORT ON INTERNAL CONTROL

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

As of and for the Year Ended December 31, 2011

SUMNER MUNICIPAL LIGHT & PLANT

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

Management of the Sumner Municipal Light & Plant is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sumner Municipal Light & Plant's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sumner Municipal Light & Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sumner Municipal Light & Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

- > Internal Control Over Financial Reporting
- > Internal Accounting Controls – Segregation of Duties
- > Internal Control Improvements

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.

Baker Tilly Virchow Krause LLP

Madison, Wisconsin
May 14, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

EMPLOYEE HEALTH FUND PROCESS

During our audit we noted a couple of occasions where receipts supporting payments made out of the employee health fund were not easily accessible. Although, after some further investigation by SMLP staff these receipts were located and furnished to us for our review, we recommend a formal process be designed to ensure receipts are submitted prior to payment being made and the organization of these receipts be enhanced to allow support to be accessible without additional efforts being needed.

MATERIAL WEAKNESS

INTERNAL CONTROL OVER FINANCIAL REPORTING

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:

- > 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.
- > 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 Baker Tilly preparing the SMLP financial statements and the identification of material journal entries.

INTERNAL ACCOUNTING CONTROLS – SEGREGATION OF DUTIES

An ideal accounting system includes many procedures and controls designed to limit the access of any one individual to assets. However, the size of your utility precludes large administrative staffs or complex controls. This is not unusual for utilities of your size but we are required to inform you that this material weakness exists.

Because some of these accounting system controls do not exist, you must rely more heavily on your direct knowledge of the utilities' operations and day to day contact with employees to control and safeguard assets.

INTERNAL CONTROL IMPROVEMENTS

Listed below are controls that should exist in order to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. Our procedures discussed above identified that these controls do not currently exist.

CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS

1. The accounts payable general ledger account and list of invoices included in accounts payable are not formally reconciled. Considering the cash basis of accounting is followed this account should be regularly reviewed to ensure the general ledger account is cleared to zero after each disbursement is made.

MATERIAL WEAKNESS (cont)

CONTROLS OVER UTILITY BILLING AND RECEIPTING

1. A formal review of new customers and billing rates is not being performed by a second individual after the data is entered in the system.

CONTROLS OVER FINANCIAL REPORTING

1. Journal entries are not prepared by someone independent of processing transactions in the account.

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 users cannot reuse recent passwords.
- > Develop a process to ensure the server room is locked at all times.

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 russ.hissom@bakertilly.com.

PRIOR 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.

PRIOR YEAR COMMENTS (cont.)

CONVERSION TO ACCRUAL ACCOUNTING (cont.)

- > 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 includes 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 asset 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

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

Status as of 12/31/2011

SMLP has not converted over to accrual accounting, and therefore still operates as a cash basis entity. We continue to recommend this conversion and would be happy to assist in the conversion process.

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 AND GOVERNMENT AUDITING STANDARDS

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 and *Government Auditing Standards*. 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 the board of trustees of their responsibilities.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS (cont.)

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.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Light Plant's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

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 accrual based financial statements, if prepared on an accrual basis, 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.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatements 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. Copies of these adjustments are attached, none of which were material to your financial statements.

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 Baker Tilly Virchow Krause, LLP and SMLP that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of Sumner Municipal Light & Plant for the year ended December 31, 2011, Baker Tilly Virchow Krause, 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.

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

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.

Sumner Municipal Light and Plant

Year End: December 31, 2011

Adjusting Journal Entries

Date: 1/1/2011 To 12/31/2011

TB. 2

Done By	In-Charge	Mananger
Partner	MS 2/9/2012	
RAH 4/18/2012	Preissuance	
	SS 5/7/2012	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
A01	12/31/2011	Future Energy CD #60810	002-1117	A. 1		863.03		
A01	12/31/2011	Future Energy CD#60811	002-1118	A. 1		863.03		
A01	12/31/2011	Interest Income	002-4-820-1-4565	A. 1			1,726.06	
		Booking interest income for the year						
A02	12/31/2011	Equity	002-3860	LT-1			142,028.38	
A02	12/31/2011	Equity	003-3860	LT-1			14.00	
A02	12/31/2011	Interest Income	003-4700	LT-1		14.00		
A02	12/31/2011	Interest Income	003-4700	LT-1			300.57	
A02	12/31/2011	Residential Revenue	002-4-820-1-4500	LT-1			1,170.03	
A02	12/31/2011	Interest Income	002-4-820-1-4565	LT-1			830.58	
A02	12/31/2011	Interest Income	002-4-820-1-4565	LT-1		300.57		
A02	12/31/2011	Penalties	002-4-820-1-4570	LT-1			3.01	
A02	12/31/2011	Walter Scott 4	002-5-820-2-6518	LT-1		144,032.00		
		To adjust equity account to remove current year activty recorded in error.						
A03	12/31/2011	Accounts Payable	002-2020	TB		3,786.35		
A03	12/31/2011	Maint Power Production	002-5-820-5-6300	TB			1,844.65	
A03	12/31/2011	Vehicle Operations	002-5-820-6-6331	TB			54.42	
A03	12/31/2011	Plant	002-5-820-7-6153	TB			346.83	
A03	12/31/2011	Utilities	002-5-820-7-6154	TB			40.45	
A03	12/31/2011	Medical Reimbursement	002-5-820-7-6183	TB			1,500.00	
		To reverse accounts payable balance at 12/31						
						149,858.98	149,858.98	
		Net Income (Loss)	(126,685.42)					



SUMNER MUNICIPAL LIGHT PLANT

P.O. BOX 267
105 WAPSIE STREET
SUMNER, IA 50674

May 14, 2012

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of the Sumner Light and Plant as of December 31, 2011 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position, results of operations, and cash flows of Sumner Light and Plant in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control 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 the 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 representations made to you during your audit.

1. The general purpose financial statements referred to above are not fairly presented in conformity with accounting principles generally accepted in the United States of America as the Sumner Light and Plant has chosen not to implement GASB Statement No. 34. The financial statements referred to above include all properly classified funds and account groups and other financial information of Sumner Light and Plant that previously were required by generally accepted accounting principles to be included in the financial reporting entity.

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2. We have made available to you all –
 - a. Financial records and related data.
 - b. Minutes of the meetings of our governing body and summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Joint ventures
 - b. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Collateralization agreements with financial institutions.
 - d. Guarantees, whether written or oral, under which the utility is contingently liable.
 - e. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts

May 14, 2011

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applicable to us, including Iowa compliance requirements, debt contracts and debt covenants; and we have identified and disclosed to you all laws, regulations and provisions of contracts that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. This responsibility includes:

- a. Identifying, understanding and complying with the compliance requirements.
- b. Establishing and maintaining effective controls that provide reasonable assurance that Sumner Light and Plant is in compliance with those requirements.
- c. Evaluating and monitoring compliance with the requirements.
- d. Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings identified.

13. There are no –

- a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- b. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- c. Violations of restrictions placed on revenues as a result of a bond resolution covenants – such as revenue distribution, or debt service funding.
- d. Unasserted claims, assessments or pending lawsuits that must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
- e. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

14. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral other than liens created by our revenue debt.

15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

16. The financial statements properly classify all funds and activities.

17. Provisions for uncollectible receivables have been properly identified and recorded.

18. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

19. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

20. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3)

Baker Tilly Virchow Krause, LLP

May 14, 2011

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evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

- a. Financial statement preparation
- b. Adjusting journal entries
- c. Compiled regulatory reports
- d. Trial balance formatting from general ledger data
- e. Other

21. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to December 31, 2011 and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned financial statements.

Signed Richard H. Ross

Title/Date Chairman May 14, 2012

Signed Alan M. Jenkins

Title/Date Manager May 14, 2012