

SUMNER MUNICIPAL LIGHT & PLANT

An Enterprise Fund of the City of Sumner, Iowa

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2014

SUMNER MUNICIPAL LIGHT & PLANT

An Enterprise Fund of the City of Sumner, Iowa

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INDEPENDENT AUDITORS' REPORT

To the Utility Commission
Sumner Municipal Light & Plant
Sumner, Iowa

Report on the Financial Statements

We have audited the accompanying cash basis 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, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with cash basis of accounting as described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Sumner Municipal Light & Plant's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sumner Municipal Light & Plant's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Utility Commission
Sumner Municipal Light & Plant

Opinion

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, 2014, and the cash receipts and disbursements for the year then ended, in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Sumner Municipal Light & Plant enterprise fund and do not purport to, and do not present fairly the financial position of the City of Sumner, Iowa, as of December 31, 2014 and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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, economic, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements 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 supplemental information as identified in the table of contents is fairly stated in all material respects in relation to the financial statements as a whole.

To the Utility Commission
Sumner Municipal Light & Plant

We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the years ended December 31, 2013-2010, 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 2013-2010 information included in the detailed schedules as supplemental information has been subjected to the procedures applied in the prior year audits 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, 2013-2010, taken as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 10, 2015 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sumner Municipal Light & Plant's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
July 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMNER MUNICIPAL LIGHT & PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2014
(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 position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Position (Expressed in Thousands)

	Year Ended December 31,	
	2014	2013
Receipts:		
Program Receipts:		
Charges for services	\$ 1,876	\$ 1,748
General Receipts:		
Unrestricted investment earnings	5	5
Other general receipts	49	38
Total Receipts	<u>1,930</u>	<u>1,791</u>
Disbursements	<u>2,171</u>	<u>1,757</u>
Increase (decrease) in cash basis net assets	(241)	34
CASH BASIS NET POSITION – Beginning of Year	<u>1,298</u>	<u>1,264</u>
CASH BASIS NET POSITION – END OF YEAR	<u><u>\$ 1,057</u></u>	<u><u>\$ 1,298</u></u>

BUDGETARY HIGHLIGHTS

Program receipts exceeded the budget amount during the year. Receipts for services were \$18,154 more than the budget as a result of increased purchase power costs passed on to the customers in 2014.

SUMNER MUNICIPAL LIGHT & PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2014
(Unaudited)

DEBT ADMINISTRATION

At December 31, 2014, the Light Plant had \$1,005,000 in revenue bonds, compared to \$1,120,000 last year, as shown below:

Outstanding Debt at Year End
(Expressed in Thousands)

	Year Ended December 31,	
	2014	2013
Revenue Notes:		
Elec. Revenue Refunding Bonds-Series 2012, \$1,335,000 Jan. 1, 2012	\$ 1,005	\$ 1,120
Total Revenue Bonds	<u>\$ 1,005</u>	<u>\$ 1,120</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 2014 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 2015.

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

STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS As of and for the Year Ended December 31, 2014

	<u>Disbursements</u>	<u>Program Receipts Charges for Service</u>	<u>Business- type Activities</u>
FUNCTIONS/PROGRAMS			
Business-type activities			
Electric	\$ 2,190,778	\$ 1,896,596	\$ (294,182)
GENERAL RECEIPTS			
Unrestricted interest on investments			5,129
Miscellaneous			49,735
Total General Receipts and Transfers			<u>54,864</u>
Change in Cash Basis Net Position			(239,318)
CASH BASIS NET POSITION, Beginning of Year			<u>1,302,627</u>
CASH BASIS NET POSITION, END OF YEAR			<u>\$ 1,063,309</u>
CASH BASIS NET POSITION			
Restricted			
Debt service			\$ 133,500
Meter deposits refunds			50,173
Equipment replacement			78,331
City return on investment			50,572
Unrestricted			<u>750,733</u>
TOTAL CASH BASIS NET POSITION			<u>\$ 1,063,309</u>

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, 2014

	Enterprise Funds			Internal Service Fund
	Electric	Meter Deposit	Totals	Employee Health
OPERATING RECEIPTS				
Use of money and property	\$ 5,000	\$ 118	\$ 5,118	\$ 11
Charges for services	1,875,596	-	1,875,596	21,000
Miscellaneous	41,285	8,450	49,735	-
Total Operating Receipts	1,921,881	8,568	1,930,449	21,011
OPERATING DISBURSEMENTS				
Business-type activities	2,028,201	6,469	2,034,670	19,605
Excess (deficiency) of operating receipts over (under) operating disbursements	(106,320)	2,099	(104,221)	1,406
NONOPERATING RECEIPTS (DISBURSEMENTS)				
Debt service	(136,503)	-	(136,503)	-
Net nonoperating receipts (disbursements)	(136,503)	-	(136,503)	-
Excess (deficiency) of receipts over (under) disbursements	(242,823)	2,099	(240,724)	1,406
CASH BALANCES, Beginning of Year	1,250,399	48,074	1,298,473	4,154
CASH BALANCES, END OF YEAR	\$ 1,007,576	\$ 50,173	\$ 1,057,749	\$ 5,560
CASH BASIS FUND BALANCES				
Restricted for debt service	\$ 133,500	\$ -	\$ 133,500	\$ -
Restricted for meter deposit refunds	-	50,173	50,173	-
Restricted for equipment replacement	78,331	-	78,331	-
Restricted for City return on investment	50,572	-	50,572	-
Unrestricted	745,173	-	745,173	5,560
TOTAL CASH BASIS FUND BALANCES	\$ 1,007,576	\$ 50,173	\$ 1,057,749	\$ 5,560

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 POSITION PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2014

Total enterprise funds cash balances (page 7)	\$ 1,057,749
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*Amounts reported for business-type activities in the Statement of
Activities and Net Position 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 Position.

5,560

CASH BASIS NET POSITION OF BUSINESS-TYPE ACTIVITIES (page 6)	<u>\$ 1,063,309</u>
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Net change in cash balances (page 7)	\$ (240,724)
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*Amounts reported for business-type activities in the Statement of Activities
and Net Position 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 position of the Internal Service Fund is reported with business-type activities.

1,406

CHANGE IN CASH BALANCE OF BUSINESS-TYPE ACTIVITIES (page 6)	<u>\$ (239,318)</u>
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SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Sumner Municipal Light & Plant (SMLP) 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 Position 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 position is reported in two categories:

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

Unrestricted net position consists of net position that does not meet the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Position 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 Employee Health 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, 2014

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, capital assets, 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.

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 POSITION

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.

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, 2014

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

F. RECEIPTS AND DISBURSEMENTS

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

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, 2011.

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, 2014 were comprised of the following:

	<u>2014</u>	<u>Risks</u>
Checking	\$ 232,638	Custodial credit risk
Petty cash	150	N/A
Certificates of deposit	<u>830,521</u>	Custodial credit risk
Total Deposits and Investments	<u>\$ 1,063,309</u>	

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Reconciliation to financial statements:

	<u>2014</u>
Unrestricted cash and investments	\$ 750,733
Restricted cash and investments	<u>312,576</u>
Total Deposits and Investments	<u>\$ 1,063,309</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.

NOTE 3 – LONG-TERM OBLIGATIONS

REVENUE BONDS

The following revenue bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Maturity</u>	<u>Rates</u>	<u>Issue</u>	<u>Amount</u>
1/25/2012	Advance refund the 2004 bonds that were issued to finance the purchase of 1 mW of the 790 mW MidAmerican Generating Plant	10/1/2022	0.55-2.6%	\$ 1,335,000	\$ 1,005,000

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 3 – LONG-TERM OBLIGATIONS (cont.)

The 2012 revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 120,000	\$ 20,468	\$ 140,468
2016	120,000	19,028	139,028
2017	125,000	17,228	142,228
2018	125,000	15,040	140,040
2019	130,000	12,540	142,540
2020-2022	385,000	19,230	404,230
Totals	<u>\$ 1,005,000</u>	<u>\$ 103,534</u>	<u>\$ 1,108,534</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are deceased. Principal and interest paid for 2014 was \$136,503. Total customer gross receipts as defined for the same period was \$1,921,881. Annual principal and interest payments are expected to require 7.2% of revenues.

Long-term obligation activity for 2014 follows:

<u>Debt Issue</u>	<u>12/31/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014</u>	<u>Current Portion</u>
2012 Revenue Bonds	\$ 1,120,000	\$	\$ 115,000	\$ 1,005,000	\$ 120,000
Total	<u>\$ 1,120,000</u>	<u>\$</u>	<u>\$ 115,000</u>	<u>\$ 1,005,000</u>	<u>\$ 120,000</u>

BOND COVENANT DISCLOSURES

The following information is provided in compliance with the resolution creating the 2012 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, 2014:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
General Liability	\$10,796,290	4/1/2015

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 3 – LONG-TERM OBLIGATIONS (cont.)

Debt Coverage

Under terms of the resolution providing for the issue of revenue bonds, receipts less operating disbursements (defined net earnings) must exceed 1.10 times the current annual debt service of the bonds. The coverage only includes revenue debt. The coverage requirement was not met in 2014 as follows:

	<u>2014</u>
Operating receipts	\$ 1,875,596
Investment Income	5,000
Miscellaneous operating receipts	41,285
Less: Operation and maintenance disbursements*	<u>(1,793,716)</u>
Net Defined Earnings	<u>\$ 128,165</u>
Minimum Required Earnings per Resolution	\$ 136,503
Coverage factor	<u>1.10%</u>
Minimum Required Earnings	<u>\$ 150,153</u>
Actual Debt Coverage	<u>0.94</u>

*Excludes disbursements associated with equipment replacement, meter deposits returned and merchandise for resale.

Utility Budget

The 2014 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.

As of the beginning of 2014, plan members were required to contribute 5.95% of their annual salary and the Light Plant was required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Light Plant's contributions to IPERS for the years ended December 31, 2014 and 2013 were \$26,297 and \$26,088, respectively, equal to the required contributions for the year.

SUMNER MUNICIPAL LIGHT & PLANT

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

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, 2014, the amount of \$681,622 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, 2014.

NOTE 7 – SUBSEQUENT EVENTS

The utility evaluated subsequent events through July 10, 2015 the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

S U P P L E M E N T A R Y I N F O R M A T I O N

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, 2014

	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	\$ 5,129	\$ 11	\$ 5,118	\$ 5,000	\$ 5,000	\$ 118	2%
Charges for services	1,896,596	21,000	1,875,596	1,908,303	1,908,303	(32,707)	-2%
Miscellaneous	49,735	-	49,735	35,300	35,300	14,435	41%
Total Receipts	<u>1,951,460</u>	<u>21,011</u>	<u>1,930,449</u>	<u>1,948,603</u>	<u>1,948,603</u>	<u>(18,154)</u>	<u>-1%</u>
DISBURSEMENTS							
Business-type activities	<u>2,190,778</u>	<u>19,605</u>	<u>2,171,173</u>	<u>1,948,603</u>	<u>2,168,603</u>	<u>2,570</u>	<u>0%</u>
Deficiency of receipts under disbursements	(239,318)	1,406	(240,724)				
BALANCES, Beginning of Year	<u>1,302,627</u>	<u>4,154</u>	<u>1,298,473</u>				
BALANCES, END OF YEAR	<u>\$ 1,063,309</u>	<u>\$ 5,560</u>	<u>\$ 1,057,749</u>				

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS ENTERPRISE FUND ELECTRIC UTILITIES - PLANT OPERATION

For the Years Ended December 31, 2014, 2013, 2012, 2011, and 2010

	2014	2013	2012	2011	2010
RECEIPTS					
Charges for Services					
Sale of Electricity					
Residential	\$ 993,496	\$ 916,652	\$ 893,920	\$ 871,328	\$ 794,725
Commercial	882,100	831,672	754,184	696,747	641,557
Total Charges for Services	1,875,596	1,748,324	1,648,104	1,568,075	1,436,282
Miscellaneous					
Interest on investments	5,118	5,520	10,031	11,318	17,212
Penalties	4,035	3,376	3,492	3,649	3,260
NIMECA	21,579	13,288	31,422	13,086	13,929
Posting fees	8,975	8,075	8,900	8,750	7,840
Meter deposits	8,451	8,800	10,622	5,083	4,361
Bond refunding issuance	-	-	35,000	-	-
Miscellaneous	6,695	4,014	3,137	4,730	496
Total Miscellaneous Receipts	54,853	43,073	102,604	46,616	47,098
TOTAL RECEIPTS	\$ 1,930,449	\$ 1,791,397	\$ 1,750,708	\$ 1,614,691	\$ 1,483,380
DISBURSEMENTS					
Business-Type Activities					
Plant Operation					
Power purchased	\$ 681,622	\$ 530,296	\$ 463,894	\$ 390,607	\$ 347,674
Salaries	27,528	27,844	28,043	26,969	26,235
Operating supplies	28,172	25,893	31,661	18,095	36,166
Insurance	49,913	47,147	46,795	39,350	37,369
Maintenance	16,739	23,901	10,058	22,286	11,675
Gas and fuel	2,166	1,678	882	1,469	1,100
Walter Scott #4	231,000	215,418	184,135	298,719	170,087
Equipment replacement	197,361	-	-	-	-
Total Plant Operation	1,234,501	872,177	765,468	797,495	630,306

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS ENTERPRISE FUND ELECTRIC UTILITIES - PLANT OPERATION

For the Years Ended December 31, 2014, 2013, 2012, 2011, and 2010

	2014	2013	2012	2011	2010
DISBURSEMENTS (cont.)					
Business-Type Activities (cont.)					
Plant Distribution					
Salaries	\$ 55,057	\$ 55,688	\$ 56,086	\$ 53,937	\$ 52,471
Truck expense	22,879	16,924	20,493	20,078	18,548
Maintenance labor	121,003	124,821	128,377	123,056	119,420
Stocks and supplies	89,636	84,367	154,446	133,590	121,891
Transmission costs	36,000	30,000	25,000	30,704	25,157
Equipment replacement	28,000	-	-	46,282	22,276
Total Plant Distribution	352,575	311,800	384,402	407,647	359,763
Accounting and Collection					
Salaries	48,115	46,333	44,128	41,996	41,394
Office supplies	14,132	16,020	12,035	17,183	15,943
Miscellaneous	214	244	1,777	226	173
Total Accounting and Collection	62,461	62,597	57,940	59,405	57,510
Administration					
Salaries	40,969	40,050	38,815	37,557	36,702
Employee group insurance	99,281	92,322	94,460	94,667	88,886
Employee benefits	48,129	48,227	47,122	42,889	40,004
Medical benefits	21,000	24,000	27,000	30,000	23,000
Trustees	1,800	1,800	1,800	1,800	1,800
Legal and professional fees	18,173	20,850	26,761	17,325	18,635
Dues and meetings	7,315	4,478	4,129	5,963	5,454
Telephone	5,200	5,293	5,036	4,957	4,713
Supplies and miscellaneous	48,275	20,860	44,569	13,197	24,096
Land	-	-	92,000	-	-
City of Sumner	28,349	43,869	47,187	30,290	29,413
Meter deposits returned	6,472	10,211	4,011	2,996	3,150
Merchandise for resale	9,121	11,519	4,240	9,764	4,804
Total Administration	334,084	323,479	437,130	291,405	280,657
Unallocated					
Sales tax remitted	51,049	49,409	47,998	44,755	42,703

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULES OF CASH TRANSACTIONS ENTERPRISE FUND ELECTRIC UTILITIES - PLANT OPERATION

For the Years Ended December 31, 2014, 2013, 2012, 2011, and 2010

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
DISBURSEMENTS (cont.)					
Bonds					
Bond issuance costs	\$ -	\$ -	\$ 35,000	\$ -	\$ -
Interest and bond fees	21,503	22,308	15,619	60,363	62,875
Bond retirement	<u>115,000</u>	<u>115,000</u>	<u>100,000</u>	<u>80,000</u>	<u>75,000</u>
Total Bonds	<u>136,503</u>	<u>137,308</u>	<u>150,619</u>	<u>140,363</u>	<u>137,875</u>
TOTAL DISBURSEMENTS	<u>\$ 2,171,173</u>	<u>\$ 1,756,770</u>	<u>\$ 1,843,557</u>	<u>\$ 1,741,070</u>	<u>\$ 1,508,814</u>
NET	\$ (240,724)	\$ 34,627	\$ (92,849)	\$ (126,379)	\$ (25,434)
BALANCE BEGINNING OF YEAR	<u>1,298,473</u>	<u>1,263,846</u>	<u>1,356,695</u>	<u>1,483,074</u>	<u>1,508,509</u>
BALANCE END OF YEAR	<u>\$ 1,057,749</u>	<u>\$ 1,298,473</u>	<u>\$ 1,263,846</u>	<u>\$ 1,356,695</u>	<u>\$ 1,483,074</u>

SUMNER MUNICIPAL LIGHT PLANT

SCHEDULE OF INDEBTEDNESS As of and for the Year Ended December 31, 2014

	Electric Revenue Refunding Bonds - Series 2012
Date of issue	January 25, 2012
Interest rates	0.55 to 2.6%
Amount originally issued	\$ 1,335,000
Balance beginning of year	1,120,000
Issued during year	-
Redeemed during year	115,000
Balance end of year	1,005,000
Interest paid	21,503
Interest due and unpaid	-

SUMNER MUNICIPAL LIGHT PLANT

BOND AND NOTE MATURITIES

As of December 31, 2014

<u>Year Ending</u> <u>December 31</u>	<u>Revenue Refunding Bonds</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
	Electric Revenues	
	Bonds - Series 2012	
	\$1,335,000	
	Issued January 25, 2012	
2015	1.200%	120,000
2016	1.500%	120,000
2017	1.750%	125,000
2018	2.000%	125,000
2019	2.250%	130,000
2020	2.400%	130,000
2021	2.500%	135,000
2022	2.600%	120,000
Total		<u>\$ 1,005,000</u>

SUMNER MUNICIPAL LIGHT PLANT

OFFICIALS
As of December 31, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Loren Gitch	Chairperson	January 1, 2018
Richard Rath	Trustee	January 1, 2016
Peggy Becker	Trustee	January 1, 2020
Alan Junkers	Manager	Indefinite
Dean Conrad	Treasurer	Indefinite
Michelle Bahe	Bookkeeper	Indefinite

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*

Independent Auditors' Report

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

We have audited, 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, the accompanying financial statements of Sumner Municipal Light & Plant, an enterprise fund of the City of Sumner, Iowa, which comprise the statements listed in the table of contents. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sumner Municipal Light & Plant's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sumner Municipal Light & Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of Sumner Municipal Light & Plant's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified deficiencies in internal controls 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These material weaknesses are items II-A-14, II-B-14, and II-C-14.

To the Board of Trustees
Sumner Municipal Light & Plant

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Sumner Municipal Light & Plant's operations for the year ended December 31, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Sumner Municipal Light & Plant. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sumner Municipal Light and Plant's Response to Findings

Sumner Municipal Light and Plant's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Sumner Municipal Light and Plant's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
July 10, 2015

SUMNER MUNICIPAL LIGHT & PLANT

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2014

FINDINGS

The audit identified the following material weaknesses:

- II-A-14 **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 2014 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-14 **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 2014 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-14 **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, 2014

CONTROLS OVER RESTRICTED CASH ACCOUNTS

1. Separate restricted cash accounts have not been established for each of the debt issues which is a requirement of the bond resolution.

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. There is not a segregation between the receipting and receivables function.

CONTROLS OVER PAYROLL

1. Persons preparing the payroll are not independent of other personnel duties and restricted from access to the payroll account.

CONTROLS OVER FINANCIAL REPORTING

1. Journal entries are not prepared by someone independent of processing transactions in the account.
2. Account reconciliations are not performed by someone independent of the processing of 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 2014 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.

SUMNER MUNICIPAL LIGHT & PLANT

SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2014

LOGICAL AND PHYSICAL ACCESS SECURITY (cont.)

Management's Response: Management will consider enhancing these controls in future years, realizing that responsibilities in a limited number of individuals are not desirable from a control point of view.

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- 14-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, 2014.
- 14-II-B Certified Budget – Disbursements during the year ended December 31, 2014 exceeded the amounts budgeted.
- 14-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.
- 14-II-D Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- 14-II-E Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 14-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.
- 14-II-G Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 14-II-H Revenue Bonds – The utility did not meet the required debt coverage amount as stated in the bond resolution. However, all other provisions of the 2014 Bond Covenants were met. Additionally, all required payments to the reserve fund were made.
- 14-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.