

# **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, 2015

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

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As of and for the Year Ended December 31, 2015

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**INDEPENDENT AUDITORS' REPORT**

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

***Report on the Financial Statements***

We have audited the accompanying 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, 2015, 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 accounting principles generally accepted in the United States of America; 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 over financial reporting 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sumner Municipal Light Plant as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Sumner Municipal Light Plant

### ***Emphasis of Matters***

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, 2015 and the respective changes in financial position, or cash flows thereof 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.

As discussed in the Note 1, Sumner Municipal Light Plant adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this matter.

As discussed in Note 10, Sumner Municipal Light Plant adopted the accrual method of accounting as of January 1, 2015. Previous utility audit reports have been reported on the cash basis of reporting as an other comprehensive basis of accounting. The cumulative effect of the change is shown in the current year. 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 required supplementary information 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, 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.

Sumner Municipal Light Plant has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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 the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

To the Board of Trustees  
Sumner Municipal Light Plant

*Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have issued our report dated June 27, 2016 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 grant agreements and other matters, including those systems applicable to Sumner Municipal Light 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 in considering the City of Sumner's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 27, 2016

# SUMNER MUNICIPAL LIGHT PLANT

## STATEMENT OF NET POSITION As of December 31, 2015

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<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 71,696
Designated Cash and Investments	
Bond funds	210,082
Building funds	900,853
Medical reimbursement funds	5,172
City return on investment funds	80,736
Future energy and O&M funds	317,874
Customer accounts receivable (net)	172,858
Materials and supplies	132,489
Prepayments	19,217
Total Current Assets	<u>1,910,977</u>
<b>NONCURRENT ASSETS</b>	
Restricted Cash and Investments	
Redemption account	34,757
Reserve account	133,500
Replacement account	86,516
Meter deposit funds	55,193
Other Assets	
Deferred patronage dividends receivable	24,060
Investment in common transmission system - Restricted - CTS capital improvement funds	158,719
Property held for future use	168,034
Capital Assets	
Plant in service	7,968,345
Accumulated depreciation	(3,535,808)
Construction work in progress	57,375
Total Noncurrent Assets	<u>5,150,691</u>
Total Assets	<u>7,061,668</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pension	<u>54,067</u>

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<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 255,945
Accrued wages	4,675
Current Liabilities Payable from Restricted Assets	
Current portion of revenue bonds	120,000
Accrued interest	<u>4,757</u>
Total Current Liabilities	<u>385,377</u>
<b>NONCURRENT LIABILITIES</b>	
Revenue bonds	765,000
Net pension liability	<u>209,604</u>
Total Noncurrent Liabilities	<u>974,604</u>
 Total Liabilities	 <u>1,359,981</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pension	<u>57,053</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,738,412
Restricted for:	
Debt service	30,000
Equipment replacement	86,516
Meter deposits	55,193
CTS capital improvements	158,719
Unrestricted	<u>1,629,861</u>
 <b>TOTAL NET POSITION</b>	 <b><u>\$ 5,698,701</u></b>

See accompanying notes to the financial statements.

## SUMNER MUNICIPAL LIGHT PLANT

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended December 31, 2015

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<b>OPERATING REVENUES</b>	
Sales of electricity	\$ 1,881,206
Other	<u>13,910</u>
Total Operating Revenues	<u>1,895,116</u>
<b>OPERATING EXPENSES</b>	
Operation and maintenance	1,665,039
Depreciation	<u>209,241</u>
Total Operating Expenses	<u>1,874,280</u>
<b>OPERATING INCOME</b>	<u>20,836</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	7,917
Miscellaneous revenues	985,529
Interest expense	(20,108)
Miscellaneous expenses	<u>(6,942)</u>
Total Nonoperating Revenues (Expenses)	<u>966,396</u>
Income Before Contributions and Transfers	987,232
<b>CAPITAL CONTRIBUTIONS</b>	25,000
<b>TRANSFER IN (OUT)</b>	<u>(28,216)</u>
<b>CHANGE IN NET POSITION</b>	984,016
NET POSITION - Beginning of Year	1,063,309
Cumulative effect of a change in accounting principle	<u>3,651,376</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 5,698,701</u></u>

See accompanying notes to the financial statements.

# SUMNER MUNICIPAL LIGHT PLANT

## STATEMENT OF CASH FLOWS For the Year Ended December 31, 2015

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### CASH FLOWS FROM OPERATING ACTIVITIES

Received from customers	\$ 2,883,687
Paid to suppliers for goods and services	(1,219,707)
Paid to employees for operating payroll	<u>(321,239)</u>
Net Cash Flows From Operating Activities	<u>1,342,741</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds	<u>(28,216)</u>
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### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(348,904)
Debt retired	(120,000)
Interest paid	<u>(20,468)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(489,372)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Investments purchased	(1,463,214)
Investments sold and matured	830,521
Investment income	<u>7,917</u>
Net Cash Flows From Investing Activities	<u>(624,776)</u>

<b>Net Change in Cash and Cash Equivalents</b>	<b>200,377</b>
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CASH AND CASH EQUIVALENTS - Beginning of Year	<u>232,788</u>
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<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 433,165</u></b>
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### NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Contributed additions to utility plant	<u>\$ 25,000</u>
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**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS  
FROM OPERATING ACTIVITIES**

Operating income	\$ 20,836
Nonoperating revenue (expense)	978,587
Noncash items in operating income	
Depreciation	209,241
Changes in assets and liabilities	
Customer accounts receivable	9,398
Materials and supplies	3,627
Prepayments	17,758
Pension related deferrals and assets	(10,924)
Deferred patronage dividend	586
Accounts payable	111,972
Accrued wages	<u>1,660</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 1,342,741</u></b>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF  
NET POSITION ACCOUNTS**

Cash and investments	\$ 71,696
Redemption account	34,757
Reserve account	133,500
Medical reimbursement funds	5,172
Replacement account	86,516
Future energy and O&M funds	317,874
Return on investment account	80,736
Meter deposit funds	55,193
Bond funds	210,082
Building funds	<u>900,853</u>
Total Cash and Investments	1,896,379
Less: Noncash equivalents	<u>(1,463,214)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 433,165</u></b>

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The financial statements of Sumner Municipal Light Plant (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utility are described below.

### ***REPORTING ENTITY***

The utility 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.

For financial reporting purposes, the utility has included all funds, organizations, agencies, boards, commissions and authorities. The utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the utility are such that exclusion would cause the utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the utility. The utility has no component units which meet the Governmental Accounting Standards Board criteria.

### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The utility adopted these statements effective January 1, 2015.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)***

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***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.

### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION***

#### ***Deposits and Investments***

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

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 utility has adopted an investment policy. That policy follows the state statute for allowable investments.

#### ***Receivables/Payables***

Transactions between the utility and other funds of the municipality that are representative of lending/borrowing arrangements outstanding at year end are referred to as advances to/from other funds. All other outstanding balances between the utility and other funds of the municipality are reported as due to/from other funds.

Accounts receivable represents the balance of unpaid services billed. Management uses the allowance for doubtful accounts method in determining the write-off of bad accounts. At December 31, 2015, management identified all the receivables that are not fully collectible and has recorded an allowance for doubtful accounts of \$8,421.

#### ***Materials and Supplies***

Materials and supplies are generally used for construction, operation, and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)*

#### ***Restricted Assets***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

#### ***Property Held for Future Use***

The utility has property held for future use with a balance of \$168,034 at December 31, 2015. This amount is for land to be used for a possible new electric plant which is owned by the utility but not currently used during the course of operations.

#### ***Capital Assets***

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Capital assets of the utility are recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	<u>Years</u>
Electric Plant	
Buildings and systems	10-40
Machinery and equipment	5-10
Common Transmission System	23
Walter Scott Jr. No. 4 (WS4)	36-55
Vehicle and office equipment	5-10

#### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa's Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

#### ***Deferred Outflow of Resources***

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)*

#### ***Long-Term Obligations***

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

#### ***Deferred Inflows of Resources***

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

#### ***REVENUES AND EXPENSES***

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Charges for Services***

Billings are rendered and recorded monthly based on metered usage. The utility does not accrue revenues beyond billing dates.

Current electric rates were approved by the Board of Trustees on October 13, 2010.

#### ***Capital Contributions***

Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net position.

#### ***Miscellaneous Revenues***

During 2015, the Sumner Municipal Light Plant received \$900,000 from Entergy Operations, Inc. for use of the utility's Cooper KSV Unit and facilities in order for them to conduct required testing that they could not use their own units for. This revenue is included in 2015 Miscellaneous Revenues.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

### ***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS***

ASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. When they become effective, application of these standards may restate portions of these financial statements.

## **NOTE 2 - DEPOSITS AND INVESTMENTS**

The utility's deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

The carrying values of the utility's deposits as of December 31, 2015 were comprised of the following:

	Carrying Value as of December 31, 2015	Risks
Checking	\$ 433,015	Custodial credit risk
Petty cash	150	N/A
Certificates of deposit	1,463,214	Custodial credit risk
Totals	\$ 1,896,379	

### ***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.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## **NOTE 3 - RESTRICTED ASSETS**

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### ***Restricted Accounts***

Certain proceeds of the utility's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Replacement - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

### ***Meter Deposit Fund***

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.

### ***CTS Capital Improvement Funds***

The utility is required to fund its share of capital improvements of the common transmission system. Monthly assessments are held in investments in the name of the utility at NIMECA to cover future capital improvements of the system.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 3 - RESTRICTED ASSETS (cont.)

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### *Restricted Net Position*

The following calculation supports the amount of restricted net position:

Restricted Assets	
Redemption account	\$ 34,757
Reserve account	133,500
Replacement account	86,516
Meter deposit funds	55,193
CTS Improvement Funds	<u>158,719</u>
Total Restricted Assets	<u>468,685</u>
Less: Restricted Assets Not Funded by Revenues	
Reserve from borrowing	<u>(133,500)</u>
Current Liabilities Payable From Restricted Assets	<u>(4,757)</u>
Total Restricted Net Position as Calculated	<u>\$ 330,428</u>

The purpose of the restricted net position is as follows:

Debt Service	\$ 30,000
Equipment Replacement	86,516
Meter Funds	55,193
CTS Capital Improvement Funds	<u>158,719</u>
	<u>\$ 330,428</u>

## SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

### NOTE 4 - CHANGES IN CAPITAL ASSETS

#### *Electric Utility*

A summary of changes in electric capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 5,405	\$ -	\$ -	\$ 5,405
Capital assets being depreciated				
Generation	1,742,497	90,954	-	1,833,451
Walter Scott Jr. No. 4 (WS4)	1,575,801	-	1,485	1,574,316
Generation				
Common Transmission System	1,089,754	129,065	10,529	1,208,290
WS4, Neal 3 and Lehigh Webster	177,059	-	-	177,059
Transmission				
Distribution	2,445,730	145,695	-	2,591,425
General	543,234	45,165	10,000	578,399
Total Capital Assets Being Depreciated	7,574,075	410,879	22,014	7,962,940
Total Capital Assets	7,579,480	410,879	22,014	7,968,345
Less: Accumulated depreciation				
Generation	(942,091)	(36,398)	-	(978,489)
Walter Scott Jr. No. 4 (WS4)	(238,639)	(39,809)	1,485	(276,963)
Generation				
Common Transmission System	(412,580)	(23,741)	19,607	(416,714)
WS4, Neal 3 and Lehigh Webster	(46,201)	(4,013)	-	(50,214)
Transmission				
Distribution	(1,302,625)	(72,400)	-	(1,375,025)
General	(415,523)	(32,880)	10,000	(438,403)
Total Accumulated Depreciation	(3,357,659)	(209,241)	31,092	(3,535,808)
Construction in progress	-	57,375	-	57,375
Net Capital Assets	\$ 4,221,821			\$ 4,489,912

## SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

### NOTE 5 - LONG-TERM OBLIGATIONS

#### *Revenue Bonds*

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/15
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	0.55-2.60%%	\$ 1,335,000	\$ 885,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
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	130,000	9,615	139,615
2021-2022	<u>255,000</u>	<u>9,615</u>	<u>264,615</u>
Totals	<u>\$ 885,000</u>	<u>\$ 83,066</u>	<u>\$ 968,066</u>

All utility revenues are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2015 was \$140,468. Total customer gross revenues as defined for the same period was \$1,925,562. Annual principal and interest payments are expected to require 7.2% of gross revenues on average.

**SUMNER MUNICIPAL LIGHT PLANT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

**NOTE 5 - LONG-TERM OBLIGATIONS (cont.)**

***Long-Term Obligations Summary - Electric***

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	<u>1/1/15 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 1,005,000	\$ -	\$ 120,000	\$ 885,000	\$ 120,000
Net pension liability	<u>178,300</u>	<u>31,304</u>	<u>-</u>	<u>209,604</u>	<u>-</u>
Totals	<u>\$ 1,183,300</u>	<u>\$ 31,304</u>	<u>\$ 120,000</u>	<u>\$ 1,094,604</u>	<u>\$ 120,000</u>

***Bond Covenant Disclosures***

The following information is provided in compliance with the resolution creating the 2012 revenue bonds:

***Insurance***

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

The utility is covered under the following insurance policies at December 31, 2015:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
General Liability	\$ 10,852,453	4/1/2016

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 5 - LONG-TERM OBLIGATIONS (cont.)

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### *Bond Covenant Disclosures* (cont.)

#### *Debt Coverage*

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.10 times the annual debt service. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2015 as follows:

Operating revenues	\$ 1,895,116
Investment income	7,917
Miscellaneous nonoperating income	985,529
Less: Operation and maintenance expenses	<u>(1,665,039)</u>
Net Defined Earnings	<u>\$ 1,223,523</u>
Minimum Required Earnings per Resolution:	
Annual debt service	\$ 148,468
Coverage factor	<u>1.10</u>
Minimum Required Earnings	<u>\$ 163,315</u>
Actual Debt Coverage	<u>8.24</u>

#### *Utility Budget*

The 2015 utility budget was prepared and approved as required by the bond resolutions.

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## NOTE 6 - NET POSITION

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GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 6 - NET POSITION (cont.)

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Unrestricted net position - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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

The following calculation supports the electric net investment in capital assets:

Total construction work in progress	\$ 57,375
Plant in service	7,968,345
Accumulated depreciation	(3,535,808)
Sub-Totals	<u>4,489,912</u>
Less: Capital related debt	
Current portion of capital related long-term debt	120,000
Long-term portion of capital related long-term debt	<u>765,000</u>
Sub-Totals	<u>885,000</u>
Add: Unspent debt proceeds	
Reserve from borrowing	<u>133,500</u>
Total Net Investment in Capital Assets	<u>\$ 3,738,412</u>

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## NOTE 7 - EMPLOYEES RETIREMENT SYSTEM

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The utility implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015.

### **General Information about the Pension Plan**

**Plan Description.** IPERS membership is mandatory for employees of the utility, except for those covered by another retirement system. Employees of the utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 7 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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**Pension Benefits** – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- > A multiplier (based on years of service).
- > The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

**Disability and Death Benefits** - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**Contributions** - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the utility contributed 8.93 percent for a total rate of 14.88 percent.

The utility's total contributions to IPERS for the year ended December 31, 2015 were \$26,709.

**Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At December 31, 2015, the utility reported a liability of

## SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

### **NOTE 7 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

\$209,604 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the utility's collective proportion was .004216 percent which was a decrease of .000190 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the utility recognized pension expense of \$15,786.

At December 31, 2015, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,167	\$ -
Changes in assumption	5,771	-
Net differences between project and actual earnings on pension plan	31,361	48,806
Change in proportionate share	-	8,247
Employer contributions subsequent to the measurement date	13,768	-
Totals	\$ 54,067	\$ 57,053

Deferred outflows related to pension resulting from the IPERS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31	Deferred Outflow of Resources	Deferred Inflows of Resources
2016	\$ 10,479	\$ (14,137)
2017	10,479	(14,137)
2018	10,479	(14,137)
2019	8,775	(14,137)
2020	87	(505)
Thereafter	-	-
Totals	\$ 40,299	\$ (57,053)

There were no non-employer contributing entities at IPERS.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

## NOTE 7 - EMPLOYEES RETIREMENT SYSTEM (cont.)

**Actuarial assumptions.** The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2015
Measurement date of net pension liability (asset)	June 30, 2015
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.5%, compounded annually, net of investment expense, including inflation
Discount rate	7.5%
Salary increases	
Salary increases	4.0 to 17.0%, average, including inflation.
Mortality	RP-2000 Mortality Table

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

**Long-term expected Return on Plan Assets.** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Real Rate of Return	Target Allocation
US Equities	6.3%	23.0%
International Equities	5.7	15.0
Private Equity	11.3	13.0
Real Estate	3.5	8.0
Core Plus Fixed Income	2.1	28.0
Credit Opportunities	3.7	5.0
TIPS	1.9	5.0
Other Real Assets	6.27	2
Cash	(0.7)	1.0

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

## **NOTE 7 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the utility's proportionate share of the net pension liability (asset) to changes in the discount rate.* The following presents the utility's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.50 percent, as well as what the utility's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease to Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase to Discount Rate (8.50%)
Utility's proportionate share of the net pension liability	\$ 366,980	\$ 209,604	\$ 76,768

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

## **NOTE 8 - COMMITMENTS AND CONTINGENCIES**

### ***WALTER SCOTT JR. No. 4***

During 2002, the utility along with fourteen 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 2008. The agreement states the utility has a 0.14% undivided interest in the construction and operation of an electric generation station known as Walter Scott, Jr. Unit No. 4 (WS4), or about 1.0 MW's of generation capacity. See Note 4 for total cost and related accumulated depreciation for WS4. Operation costs and depreciation associated with WS4 are reflected in the statement of revenues, expenses and changes in net position.

### ***N.I.M.E.C.A***

The utility is a member of the North Iowa Municipal Electric Cooperative Association (NIMECA), a cooperative consisting of 13 municipalities located in Iowa. NIMECA was formed to consolidate the electric resources of its members and to serve as a joint power supply. NIMECA is also a member of Corn Belt Power Cooperative (Corn Belt). The utility contracts with N.I.M.E.C.A. to provide for its power needs. During the year ended December 31, 2015, \$461,039 was paid for power pursuant to this agreement.

# SUMNER MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2015

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## NOTE 8 - COMMITMENTS AND CONTINGENCIES (cont.)

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### *N.I.M.E.C.A* (cont.)

On January 1, 1989, NIMECA, acting as agent for its members, entered into a Common Transmission System (CTS) agreement to combine the transmission capacity of Corn Belt and the members of NIMECA. The agreement provides for an 18.6% undivided ownership interest in the transmission line capacity of Corn Belt or which the utility has a 6.21% interest. See Note 4 for the total cost and related accumulated depreciation to date the utility has invested in the CTS. The agreement also requires the utility to fund its share of capital improvements through monthly assessments if needed. As of December 31, 2015, the balance in the CTS capital improvement accounts is \$158,719 and monthly assessments of \$3,000 were paid during 2015.

The Board of Directors of Corn Belt and NIMECA has allocated earnings to their members in the form of patronage dividends. The dividends are payable in the future at the discretion of both Boards. The balance of deferred patronage dividends receivable at December 31, 2015 was \$24,060.

### *Claims and Judgments*

From time to time, the utility is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utility's financial position or results of operations.

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## NOTE 9 - SUBSEQUENT EVENTS

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

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## NOTE 10 - Cumulative Effect of Changes in Accounting Principle

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The utility adopted the accrual method of accounting effective January 1, 2015. The utility also adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position as follows:

Cash to Accrual Conversion Adjustment	\$ 3,874,890
Net pension liability, January 1, 2015	(178,300)
Deferred inflows, January 1, 2015	(67,999)
Deferred outflows, January 1, 2015	<u>22,785</u>
Cummulative Effect of a Change in Accounting Principle	<u>\$ 3,651,376</u>

**REQUIRED SUPPLEMENTAL 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, 2015

	Actual	Budgeted Amounts Original	Budgeted Final	Net Variance	Variance as % of Final Budget
<b>RECEIPTS</b>					
Use of money and property	\$ 7,405	\$ 5,000	\$ 5,000	\$ 2,405	48%
Charges for services	1,882,161	2,074,303	2,074,303	(192,142)	-9%
Miscellaneous	989,866	36,300	36,300	953,566	2627%
Total Receipts	2,879,432	2,115,603	2,115,603	763,829	36%
<b>DISBURSEMENTS</b>					
Business-type activities	2,046,118	2,115,603	2,115,603	(69,485)	-3%
Excess of receipts over disbursements	833,314	\$ -	\$ -	\$ 833,314	
BALANCES, Beginning of Year	1,063,309				
<b>BALANCES, END OF YEAR</b>	<b>\$ 1,896,623</b>				

## SUMNER MUNICIPAL LIGHT & PLANT

### BUDGET TO GAAP RECONCILIATION For the Year Ended December 31, 2015

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
<b>RECEIPTS</b>			
Use of money and property	\$ 7,405	\$ 512	\$ 7,917
Charges for services	1,882,161	(955)	1,881,206
Miscellaneous	989,866	9,573	999,439
Total Receipts	<u>2,879,432</u>	<u>9,130</u>	<u>2,888,562</u>
<b>DISBURSEMENTS</b>			
Business-type activities	<u>2,046,118</u>	<u>(144,788)</u>	<u>1,901,330</u>
Excess of receipts over disbursements	833,314	153,918	987,232
Contributions and Other Financing Uses	<u>-</u>	<u>(3,216)</u>	<u>(3,216)</u>
Excess of receipts and contributions over disbursements and other financing uses	833,314	150,702	984,016
BALANCES, Beginning of Year	<u>1,063,309</u>	<u>3,651,376</u>	<u>4,714,685</u>
<b>BALANCES, END OF YEAR</b>	<u><u>\$ 1,896,623</u></u>	<u><u>\$ 3,802,078</u></u>	<u><u>\$ 5,698,701</u></u>

## SUMNER MUNICIPAL LIGHT PLANT

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY Iowa Public Employees' Retirement System Last 10 Fiscal Years\*

The required supplementary information presented below represents the proportionate information for the enterprise fund included in this report.

	<u>2015</u>
Sumner Municipal Light and Plant's proportion of the net pension liability	.004216%
Sumner Municipal Light Plant's proportionate share of the net pension liability	\$ 209,604
Sumner Municipal Light Plant's covered employee payroll	\$ 294,367
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\*The amounts presented for each fiscal year were determined as of June 30th that occurred within the Utility's fiscal year.

### SCHEDULE OF CONTRIBUTIONS Iowa Public Employees' Retirement System Last 10 Fiscal Years\*

	<u>2015</u>
Contractually required contributions	\$ 26,709
Contributions in relation to the contractually required contributions	(26,709)
Contributions deficiency (excess)	-
Sumner Municipal Light Plant's covered-employee payroll	299,093
Contributions as a percentage of covered-employee payroll	8.93%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

See independent auditor's report and accompanying notes to required supplementary information.

## SUMNER MUNICIPAL LIGHT PLANT

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION For the Year Ended December 31, 2015

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#### *Changes of benefit terms:*

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

#### *Changes of assumption:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- > Decreased the inflation assumption from 3.25 percent to 3.00 percent
- > Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- > Adjusted male mortality rates for retirees in the Regular membership group.
- > Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- > Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- > Adjusted retiree mortality assumptions.
- > Modified retirement rates to reflect fewer retirements.
- > Lowered disability rates at most ages.
- > Lowered employment termination rates
- > Generally increased the probability of terminating members receiving a deferred retirement benefit.
- > Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

**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

ELECTRIC UTILITY PLANT  
As of and for the Year Ended December 31, 2015

	Balance 1/1/15	Additions	Retirements	Balance 12/31/15
<b>GENERATION</b>				
Structures and improvements	\$ 123,096	\$ -	\$ -	\$ 123,096
Fuel tanks, producers and accessories	285,607	65,954	-	351,561
Generators	1,034,354	-	-	1,034,354
Accessory electric equipment	299,440	25,000	-	324,440
Walter Scott Jr. No. 4 (WS4)	<u>1,575,801</u>	<u>-</u>	<u>1,485</u>	<u>1,574,316</u>
Total Generation	<u>3,318,298</u>	<u>90,954</u>	<u>1,485</u>	<u>3,407,767</u>
<b>TRANSMISSION</b>				
Common Transmission System (CTS)	1,089,754	129,065	10,529	1,208,290
Walter Scott Jr. No.4 (WS4)	134,832	-	-	134,832
Neal 3 and Lehigh Webster	<u>42,227</u>	<u>-</u>	<u>-</u>	<u>42,227</u>
Total Transmission	<u>1,266,813</u>	<u>129,065</u>	<u>10,529</u>	<u>1,385,349</u>
<b>DISTRIBUTION</b>				
Land and land rights	5,405	-	-	5,405
Structures and improvements	264,548	-	-	264,548
Station equipment	205,986	-	-	205,986
Poles, towers and fixtures	262,766	16,666	-	279,432
Overhead conductors and devices	502,434	73,051	-	575,485
Underground conductors and devices	180,004	20,565	-	200,569
Line transformers	292,393	17,044	-	309,437
Services	626,049	13,179	-	639,228
Meters	61,925	4,146	-	66,071
Street lighting and signal systems	<u>49,625</u>	<u>1,044</u>	<u>-</u>	<u>50,669</u>
Total Distribution	<u>2,451,135</u>	<u>145,695</u>	<u>-</u>	<u>2,596,830</u>
<b>GENERAL</b>				
Structures and improvements	84,192	-	-	84,192
Transportation equipment	<u>459,042</u>	<u>45,165</u>	<u>10,000</u>	<u>494,207</u>
Total General	<u>543,234</u>	<u>45,165</u>	<u>10,000</u>	<u>578,399</u>
 TOTAL ELECTRIC UTILITY PLANT	 <u>\$ 7,579,480</u>	 <u>\$ 410,879</u>	 <u>\$ 22,014</u>	 <u>\$ 7,968,345</u>

# SUMNER MUNICIPAL LIGHT PLANT

## ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES For the Year Ended December 31, 2015

### OPERATING REVENUES

Sales of Electricity	
Residential	\$ 985,241
Small commercial and industrial	<u>895,965</u>
Total Sales of Electricity	<u>1,881,206</u>
Other Operating Revenues	
Forfeited discounts	3,760
Other	<u>10,150</u>
Total Operating Revenues	<u>1,895,116</u>

### OPERATING EXPENSES

Operation and Maintenance	
Power Production	
Other Power Generation	
Operation supervision and engineering	28,001
Fuel	1,790
Generation	216,068
Miscellaneous	9,738
Maintenance	
Generating and electric plant	<u>20,625</u>
Total Other Power Generation	<u>276,222</u>
Total Power Production	<u>276,222</u>
Other Power Supply	
Purchased power	<u>461,039</u>
Transmission	
Operation supervision and engineering	56,882
Transmission of Electricity by Others	135,324
Miscellaneous	50,472
Maintenance	
Miscellaneous	<u>-</u>
Total Transmission	<u>242,678</u>
Distribution	
Operation supervision and engineering	144,677
Station	19,206
Meter	5,289
Miscellaneous	20,326
Maintenance	
Lines	16,758
Line transformers	86
Street lighting and signal system	2,756
Miscellaneous	<u>-</u>
Total Distribution	<u>209,098</u>
Customer Accounts	
Supervision	49,139
Customer records and collection	16,673
Uncollectible accounts	<u>8,421</u>
Total Customer Accounts	<u>74,233</u>

## SUMNER MUNICIPAL LIGHT PLANT

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES (cont.)  
For the Year Ended December 31, 2015

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### OPERATING EXPENSES (cont.)

Operation and Maintenance (cont.)	
Administrative and General	
Salaries	\$ 44,062
Office supplies	44,620
Outside services employed	28,777
Property insurance	50,965
Employee pensions and benefits	161,934
Miscellaneous	<u>71,411</u>
Total Administrative and General	<u>401,769</u>
Total Operation and Maintenance	1,665,039
Depreciation	<u>209,241</u>
Total Operating Expenses	<u>1,874,280</u>
 OPERATING INCOME	 <u>\$ 20,836</u>

# SUMNER MUNICIPAL LIGHT PLANT

OFFICIALS  
As of December 31, 2015

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Loren Gitch	Chairperson	January 1, 2018
Richard Rath	Trustee	January 1, 2022
Peggy Becker	Trustee	January 1, 2020
Alan Junkers	Manager	Indefinite
Dean Conrad	Treasurer	Indefinite
Michelle Bahe	Bookkeeper	Indefinite

## SUMNER MUNICIPAL LIGHT PLANT

### SCHEDULE OF INDEBTEDNESS As of and for the Year Ended December 31, 2015

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	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	1,005,000
Issued during year	-
Redeemed during year	120,000
Balance end of year	885,000
Interest paid	20,468
Interest due and unpaid	-

# SUMNER MUNICIPAL LIGHT PLANT

## BOND AND NOTE MATURITIES

As of December 31, 2015

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<u>Year Ending</u> <u>December 31</u>	<u>Revenue Refunding Bonds</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
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%	<u>120,000</u>
Total		<u>\$ 885,000</u>

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 of and for the year ended December 31, 2015, and have issued our report dated June 27, 2016.

***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-15, II-B-15, and II-C-15.

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, 2015, 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 Plant's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Sumner Municipal Light 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  
June 27, 2016

# SUMNER MUNICIPAL LIGHT PLANT

## SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2015

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### ***FINDINGS***

The audit identified the following material weaknesses:

II-A-15 **Criteria:** Statement on Auditing Standards AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit* requires auditors to report a deficiency if SMLP is not able to prepare its financial statements or has material adjusting journal entries.

**Condition:** The 2015 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-15 **Criteria:** According to Statement on Auditing Standards AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, 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 2015 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-15 **Criteria:** According to Statement on Auditing Standards AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, 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, 2015

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### **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.
2. There is not a review of new customers entered into the system or a regular review of billing rates.

### **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 2015 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.

### **LOGICAL AND PHYSICAL ACCESS SECURITY (cont.)**

# SUMNER MUNICIPAL LIGHT PLANT

## SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended December 31, 2015

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**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***

- 15-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, 2015.
- 15-II-B Certified Budget – Disbursements during the year ended December 31, 2015 were below the amounts budgeted.
- 15-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.
- 15-II-D Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- 15-II-E Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 15-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.
- 15-II-G Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 15-II-H Revenue Bonds – The utility did meet the required debt coverage amount as stated in the bond resolution and all other provisions of the 2015 Bond Covenants were met. Additionally, all required payments to the reserve fund were made.
- 15-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.