BAKER TILLY

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April 30, 2012

To the Energy and Environment Committee
City of Seattle – City Light Department
700 Fifth Avenue, Suite 3200
Seattle, WA 98124-3402

Dear Committee Members:

We have completed our audit of the financial statements of the City of Seattle – City Light Department (the "Department") for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 30, 2012. This letter presents communications required by our professional standards along with recommendations that are intended to improve the system of internal control. This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the Department's systems and procedures. The recommendations are not intended to reflect in any way on the integrity or ability of the personnel. They are made solely in the interest of establishing sound internal control practices and improving the Department's operations.

The Department's written responses to the significant deficiencies and other control recommendations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This letter is intended solely for the information and use of the Energy and Environment Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

INTERNAL CONTROLS

In planning and performing our audit of the financial statements of the Department as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepting in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the Department's 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

INTERNAL CONTROLS (cont.)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Department's internal control to be significant deficiencies:

- Customer billing
- Cash handling

CUSTOMER BILLING

During our audit, we continued to note the Department lacks adequate controls to monitor customer billing account adjustments that reduce amounts owed by Department customers. Specific issues noted include the overwhelming number of City of Seattle and Department employees with data privilege to adjust billing rates and usage with little or no review, the sheer volume of billing adjustments and alternative billing arrangements, significant adjustments to customer bills as a result of keying errors and lack of preventative controls surrounding manual inputs and the ability for employees to adjust their own bills.

Recommendations related to this issue are not limited to but include the following:

- Require employees who can make account adjustments disclose all accounts in which they have an interest in.
- Closely monitor all adjustments, time pay agreements and other arrangements involving employees' accounts.
- Establish a computerized monitoring process to help identify account adjustments that represent the highest risk.
- Periodically evaluate the effectiveness of the monitoring process to ensure it is operating as intended.
- Consider reviewing historical billing adjustments made by the City of Seattle and Department employees to their personal accounts.

Department Response:

During June 2011, the Department conducted and concluded an internal review of the Department's billing adjustments for the period of July 2009 through December 2010. While the internal review found that the adjustments to customer bills made by the Department appeared to be well founded and appropriate, there were a number of recommendations to improve the overall management controls of the account adjustment process. Many of the recommendations address the audit issues listed above:

The Department began implementing the following recommended improvements in 2011:

- Employees, both current and new, must sign a confidentiality agreement stating employees are not to work on their own accounts or those of family and friends. The Department has discussed new disclosure requirements with the Department's unions; however, current union requirements prohibit the Department from requiring employees to disclose accounts of interest.
- Weekly, a report of account adjustments over $250 and a report of account adjustments for accounts identified with employers of "Seattle City Light", "City of Seattle", and variations thereof, are prepared and reviewed by the Department's Customer Care management.
- Employees were trained on enhanced standards for the use and documentation of adjustment codes.
- Responsibilities by employee position and related CCSS access are currently in the process of evaluation by management. Access to CCSS functions will be reduced or eliminated, by employee as appropriate, based upon the new position requirements. This process will be completed by third quarter 2012.

INTERNAL CONTROLS (cont.)

Customer Billing (cont.)

Department Response: (cont.)

The Department will be implementing a new billing system scheduled for 2014. While the Department will continue to focus on strengthening and improving controls, many of the computerized internal controls will occur when the new system is implemented.

The Department's employee accounts were recently reviewed by Seattle Public Utilities (SPU) for the time period of 2001-2011. The City of Seattle's Office of City Auditor (City Auditor) is in the process of auditing the Department's employee accounts for the same time period and has completed the majority of its testing. Both SPU and the City Auditor tested employee accounts for specific parameters. Employee accounts which exceeded the audit parameters were further investigated by Department management and found to be appropriate transactions, or in one case, an immaterial impropriety. Management action was immediately taken on this case.

Cash Handling

During 2011, we supplemented our audit work by inventorying all major processes that support, create or manage cash handling and documenting the risk areas identified during our testing and walk-through procedures. During this process we noted the following:

- There is a lack of formal, documented policies and procedures in place to track payment receipts and parties responsible for maintaining custody over the payments in some major cash handling processes.
- There are numerous payment points throughout the Department's operations that do not always observe adequate segregation of duties, documentation and control of payment receipts.
- The Department is exposed to an elevated inherent safeguarding-of-asset risk due to the numerous individuals and departments handling payments prior to deposit.

Recommendations as a result of our findings are as follows:

- Require all payments to be submitted directly to appropriate payment processing facilities:
  - Designated lockbox
  - Neighborhood centers
  - Service centers

- Establish individual lockboxes specifically for material revenue streams:
  - Power billings
  - Escrow payments
  - Surplus sales
  - Conservation
  - Rental properties
  - Miscellaneous (to collect other payments)

A detailed report of our procedures and findings which includes an executive summary, summary of key recommendations and conclusion can be obtained directly from management.

INTERNAL CONTROLS (cont.)

CASH HANDLING (cont.)

Department Response:

SCL is in the process (working with FAS) to establish lockboxes as recommended by Baker Tilly. We are also drafting formal interim manual cash handling policies and conducting training in order to centralize the collection of checks from incoming mail, deposit them immediately, and prevent the distributed handling of payments throughout SCL.

A more detailed action plan is described in an SCL memo responding to the findings and can be separately provided by management.

OTHER CONTROL RECOMMENDATIONS

CONTROLS OVER INFORMATION TECHNOLOGY

The 2011 Information Technology (IT) General Controls review focused on assessing the design and effectiveness of IT controls in place for critical systems that impact financial reporting. The following IT processes were in scope for this review:

- System development life cycle (SDLC)
- Change management
- Logical security
- Physical security
- Third party vendor management
- Backups
- Automated job processing

Recommendations that resulted from this review are below:

- Expand SDLC and Change Management Processes to Include All Critical Systems that Impact Financial Reporting

  Baker Tilly recommends expanding the scope of existing SDLC and change management processes, or developing system-specific processes, to include PowerOps. This process should include formal documentation and approval for all software development, acquisition, and change management efforts.

- Enhance Logical Security Practices

  Baker Tilly recommends enhancing logical security practices for all critical systems that impact financial reporting, including requirements for unique login IDs, strong passwords, standard user access, management policies and procedures, limited administrative access, and periodic access reviews.

- Enhance System Security Monitoring

  Baker Tilly recommends continuing Information Technology Services Division's ("ITSD") planned initiative to formally review the audit logs of database-level security events for all critical systems that impact financial reporting.

- Formalize Physical Security Review Processes

  Baker Tilly recommends formalizing the existing physical security access review process for the server room to include documentation and approval.

OTHER CONTROL RECOMMENDATIONS (cont.)

CONTROLS OVER INFORMATION TECHNOLOGY (cont.)

> Enhance System Backup Processes

Baker Tilly recommends meeting with all application teams that use critical systems that impact financial reporting to ensure that backup needs and expectations are understood by ITSD. Additionally, Baker Tilly recommends enhancing monitoring and testing practices for critical systems that impact financial reporting.

For detailed information, please refer to the City of Seattle – City Light Department Points of Discussion with Management.

Department Response:

Pleased refer to management responses within the City of Seattle – City Light Department Points of Discussion with Management.

COMMUNICATION TO AUDIT COMMITTEE OR ITS EQUIVALENT

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

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

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

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

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated November 10, 2011.

COMMUNICATION TO AUDIT COMMITTEE OR ITS EQUIVALENT (cont.)

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no other transactions entered into by the Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Other postemployment benefit (OPEB) cost, net OPEB obligation and employee benefits self-insurance fund
- Allowance for doubtful accounts
- Unbilled revenues
- The Department's portion of the City of Seattle's Industrial Insurance Fund and Self-Insured Liability losses
- Environmental remediation liabilities

Financial Statement Disclosures

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

AUDIT ADJUSTMENTS

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

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually, or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

COMMUNICATION TO AUDIT COMMITTEE OR ITS EQUIVALENT (cont.)

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

MANAGEMENT REPRESENTATIONS

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

INDEPENDENCE

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

Relating to our audit of the financial statements for the year ended December 31, 2011, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the Department and provided no services to the Department other than the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- Adjusting journal entries
- Cash handling agreed-upon procedures

These nonaudit services do not constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

OTHER AUDIT FINDINGS OR ISSUES

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

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

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP

City of Seattle

Your **Seattle City Light**

April 30, 2012

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

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of The City of Seattle – City Light (the Department) as of December 31, 2011 and 2010 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position, results of operations, and cash flows of the Department in conformity with generally accepted accounting principles in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

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

We confirm, to the best of our knowledge and belief, as of April 30, 2012, the following representations made to you during your audit.

1. We are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows of the Department in conformity with accounting principles generally accepted in the United States of America. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. We are responsible for the fair representation of supplementary information and other information accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements, in conformity with the accounting principles generally accepted in the United States of America.

3. We have made available to you all -
    a. Financial records and related data.
    b. Minutes of the meetings of the Energy, Technology, & Civil Rights Committee and summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no -
    a. Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control. However, there were prior year instances where certain non-Department employees made billing adjustments to their respective retail power bills that were inconsequential and totaled less than $500. These employees were from Seattle Public Utilities. Seattle Public Utilities shares the same retail billing system.
    b. Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements aside from as noted in 4.a.
    c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. All known audit and bookkeeping adjustments have been included in our financial statements and we are in agreement with those adjustments.
7. The following, if any, have been properly recorded or disclosed in the financial statements:
    a. Joint ventures and related party transactions.
    b. Collateralization agreements with financial institutions.
    c. Guarantees, whether written or oral, under which the Department is contingently liable.
    d. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
    e. All off-balance sheet derivative financial instruments (i.e., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments.
    f. Financial instruments with significant individual or group concentration of credit risk.
    g. Sales with recourse provisions, including all price adjustment provisions.
    h. All impaired loans receivable.

   i. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.
   j. Agreements to repurchase assets previously sold.
   k. Contingent assets and liabilities.

8. There are no -
   a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
   b. Violations of restrictions placed on revenues as a result of a bond ordinance covenant, such as revenue distribution or debt service funding.
   c. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies.*
   d. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

9. All claims, assessments or pending lawsuits against the Department which may have a material effect on the Department's financial statements were brought to your attention at the time of the audit.

10. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

11. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

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

13. We are responsible for compliance with laws, regulations, and provisions of contracts and agreements applicable to us, including debt contracts and debt covenants; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts. We have complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

14. Capital assets are properly capitalized and depreciated. Any known impairments have been disclosed and recorded.

15. We believe that we have properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. Our hedging activities, if any, are in accordance with our documented and approved hedging and risk management policies. We follow the valuation, accounting, reporting, and disclosure requirements outlined in Governmental Accounting Standards Board (GASB) Statement No. 53. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives and hedged items disclosed in the notes to the financial statements have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at year end.

16. As disclosed in the notes to the financial statements, we have appropriately described the impacts that proposed accounting pronouncements may have on our financial position or operations, or the status of our evaluation or accounting pronouncements to be adopted in future years.

17. No events have occurred and no facts have been discovered which indicate that the fair value of any security is significantly affected by the credit standing of the issuer or by other specific factors.

18. We continue to meet the criteria for application of FASB Statement No. 71.

19. Funds held for respective trust accounts are sufficient to service and redeem defeased bonds.

20. Tax-exempt bonds issued have retained their tax-exempt status.

21. Equity components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.

22. We have no plans or intentions that may affect the carrying value or classification of assets and liabilities.

23. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
    a. The concentration exists at the date of the financial statements.
    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
    c. It is at least possible that the events that could cause the severe impact will occur in the near term.

24. The accounts receivable recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

25. We are responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, accounts receivable, unbilled revenue and incurred but not reported claims, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balance.

26. We believe that all expenditures that have been deferred to future periods are recoverable.

27. Provision has been made for any loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

28. We have no intention of terminating our participation in the Seattle City Employees' Retirement System (SCERS) or withdrawing from any multi-employer plans, or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our participation in the SCERS-defined benefit plan or multi-employer plans to which we contribute. We believe that the actuarial assumptions and methods used to measure the pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

29. We agree with the work of specialists in evaluating the pension liabilities, other post employment benefit liabilities, pollution remediation liabilities, and provision for injuries and damages and have adequately considered the qualifications of specialists in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialists.

30. We have complied with GASB No. 49, and believe that the estimate made for our pollution remediation liability is in accordance with this standard and reflects all known available facts at the time it was recorded.

31. Provision has been made for any loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

32. All charges to the property accounts consist of replacements or additions for the purpose of increasing capacity, extending facilities, reducing operating costs, or meeting changed operating conditions.

33. There were no items of physical property contained in the property accounts that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.

34. The accumulated provision for depreciation has been determined in accordance with the orders of and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. Based on the present operating conditions and the probable lives of the properties, we believe that the provisions being made using the depreciation rates in effect will be adequate to depreciate the properties over their respective useful lives.

35. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of the regulatory commission, and they are probable of recovery or refund in accordance with the provisions with FASB Statement No. 71. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of the regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which we remain accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods.

36. Under the deferred compensation plan offered to City employees and officers, we do not accept nor assume any of the risks associated with the Plan and its administration.

37. All purpose and eligibility requirements have been met to assure proper recognition of capital contributions, noncapital grants, and operating grants in connection with the standards outlined by GASB Statement No. 33, *Accounting and Financial Report for Non Exchange Transactions.*

38. We properly disclosed the economic gain, cash savings, and accounting loss as a result of advanced refunding of revenue bonds in accordance with GASB Statement No. 7, *Advance Refunding from Defeasance of Debt.* The accounting losses for bonds refunded have been properly deferred in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by the Proprietary Activities.*

39. Interfund activities and balances have been appropriately classified and reported.

40. Special and extraordinary items are appropriately classified and reported.

41. Deposits and investment securities are properly classified in category of custodial credit risk.

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

43. No events have occurred subsequent to the balance sheet date that would require adjustments to, or disclosure in, the financial statements.

44. We have appropriately applied the provisions of FASB Statement No.157, *Fair Value Measurements*, to the applicable assets and liabilities that are reported or disclosed at fair value at year end. We believe the inputs are observable and standard in the industry and that the most appropriate valuation models were used. These same or comparable inputs and approaches were used for reporting assets and liabilities on the balance sheet in the prior year.

    a. Forward energy expected under power exchange contracts were reported at fair value based on an income valuation approach using forward electric power curves from Platts subscription services.

45. We believe that we have properly identified all intangible assets which are required to be recorded and reported under GASB No. 51, including those that required retroactive reporting as well as any intangible assets acquired in the current year.

Sincerely,

Jorge Carrasco	4/30/12	Brian F. Brumfield	4/30/12
Superintendent	Date	Interim Chief Financial Officer	Date

FE:feb

Enclosure