

**MAQUOKETA MUNICIPAL  
ELECTRIC UTILITY  
MAQUOKETA, IOWA**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

## MAQUOKETA MUNICIPAL ELECTRIC UTILITY

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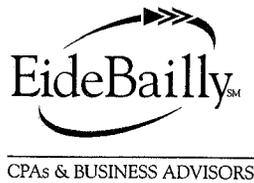
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**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
UTILITY BOARD OF TRUSTEES  
DECEMBER 31, 2004**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kent Shouse	Chairman	December 2005
Dave Knoebel	Vice Chairman	December 2007
Marilou Risser	Secretary	December 2007
Ron Frandsen	Board Member	December 2009
Bob Gavin	Board Member	December 2009



## INDEPENDENT AUDITOR'S REPORT

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Utility Board of Trustees  
Maquoketa Municipal Electric Utility  
Maquoketa, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility, a component unit of the City of Maquoketa, as of and for the year ended December 31, 2004, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Utility officials. Our responsibility is to express opinions 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; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility as of December 31, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended December 31, 2004, the Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005, on our consideration of the Maquoketa Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 12 and on page 20 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Maquoketa Municipal Electric Utility. The combining nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa  
February 22, 2005

**Maquoketa Municipal Electric Utility**  
**Management's Discussion and Analysis**

**December 31, 2004**

I. INTRODUCTION

This management discussion and analysis (MD&A) of Maquoketa Municipal Electric Utility's (MMEU) financial performance provides an overview of MMEU's financial activities for the fiscal year that ended on December 31, 2004. The information in this MD&A should be considered in conjunction with the financial statements that follow this section. Accounting standards require the inclusion of certain comparative information in this narrative. Since this is MMEU's first MD&A, some comparative information will not be possible. Subsequent MD&As will include additional comparative information.

II. OVERVIEW OF BUSINESS

The City of Maquoketa established a municipal electric utility in 1919 in order to provide electricity to the City's streetlights. When it became apparent to local residents, that the City could also provide electricity to homes and businesses, the municipal electric utility was expanded and more generating units were added at its power plant. The City's electric utility actually operated for many years in direct competition with a private electric company until 1984 when the City purchased the Maquoketa assets and property of the Iowa Electric Light and Power Company. The two electric systems were eventually combined into one system.

The Maquoketa City Council and the Maquoketa City Managers were responsible for the oversight and administration of the municipal electric utility until 1985. The Maquoketa voters established an independent Board of Trustees to oversee the municipal electric utility on November 5, 1985. The utility was officially named Maquoketa Municipal Electric Utility (MMEU), and a Utility Manager was hired by the Board of Trustees to manage the electric utility.

III. GENERAL OVERVIEW OF UTILITY OPERATIONS

Governance of MMEU is now vested in a five-member Board appointed by the Mayor of Maquoketa with approval of the City Council. Members of the board of Trustees serve for six-year staggered terms. The Board has complete control of MMEU management and employs 20 full-time employees. MMEU's administrative office is located at City Hall.

MMEU has expanded over the years and currently provides electric service to virtually all parts of Maquoketa and some rural areas to the south of Maquoketa. MMEU presently serves about 2,937 residential customers, 577 commercial customers and 10 industrial customers.

MMEU owns distribution lines and transmission lines. MMEU owns and operates two power plants. Plant 1, or the original plant built in 1919, is on the north side of the City, and presently has the capacity to generate 24,710 kWh of power. Plant 2 was built in the City's South Industrial Park along U.S. Highway 61 on the City's south side. Plant 2 has the capacity to generate 8,000 kWh of power. The generating units at Plant 1 can operate on either diesel fuel or natural gas, and the units at Plant 2 operate on diesel fuel only. Plants 1 and 2 generated 2,631,581 kWh of power in 2004 or about 3.5% of the total power needs of the City.

When diesel fuel prices substantially increased in the 1970's, it became more cost effective for the City to purchase electric power at a wholesale rate from private companies that operated coal-fired and nuclear power plants. The City also joined a consortium of other municipally owned electric utilities known as the Resale Power Group of Iowa (R.P.G.I.) in the 1970's. The R.P.G.I. negotiates the contracts for wholesale electric power from private electric companies on behalf of its member utilities. MMEU signed a five-year agreement for the purchase of wholesale electric power with the R.P.G.I. in late 2003 that became effective on January 1, 2004. The R.P.G.I. in turn has a contract with Ameren Energy, Inc. for wholesale electric power for the participants or members of the R.P.G.I. In 2004, MMEU purchased 72,221,409 KWH or 96.5% of its power needs from Ameren Energy through the R.P.G.I. contract.

#### IV. OVERVIEW OF THE FINANCIAL STATEMENTS

MD&A serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of MMEU's financial condition and performance. The financial statements contain information about MMEU using cash accounting methods as utilized by similar entities in the private sector.

The statement of cash receipts, disbursements, and changes in cash balances presents the results of MMEU's receipts and disbursements over the course of the fiscal year and provide information about MMEU's recovery of costs. Electric rates are established by the Board of Trustees and are based on MMEU's Cost of Service Study. The Cost of Service Study estimates annual revenue requirements through an analysis of operational and maintenance expenses, debt service requirements, anticipated capital needs, and return on capital. The study provides a core of information not only for the trustees and staff at MMEU, but also for the customers ultimately affected by our decisions.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the financial statements by presenting information about MMEU's accounting policies, significant account balances and activities, material risks, obligations and commitments.

V. MMEU/CITY AGREEMENTS

Although MMEU operates as an independent department of the City of Maquoketa, there is a written cooperative agreement between the City and MMEU that defines the shared services and joint efforts between the two departments. MMEU also provides water meter reading services to the City at a cost of \$0.35 per month per meter.

VI. MMEU BUDGET AND RATES

MMEU has adopted a calendar year budget that operates on a cash basis. MMEU contracts with an electric consultant to perform a Cost of Service Study to assist the Board in rate setting policy. Latham & Associates, Inc. completed the most recent electric price design study on December 1, 2003.

The current electric structure went into effect on July 1, 2004. MMEU rates are as follows:

**Residential**

Basic Service \$/Meter/Mo .....	10.00
\$/KW/Mo.	
\$/kWh 1 <sup>st</sup> 600/Mo .....	0.0790
\$/kWh over 600/Mo & Elec Ht .....	0.0690

**SGS Non-Demand/Municipal**

Basic Service \$/Meter/Mo. ....	20.00
\$/KW/Mo.	
\$/kWh 1 <sup>st</sup> 4200/mo .....	0.0906
\$/kWh over 4200/mo & Elec. Ht .....	0.0806

**LGS-50 Demand**

Basic Service \$/Meter/Mo.	
\$/KW/Mo. ....	13.5164
\$/kWh .....	0.0436

**LGS-2000 Demand**

Basic Service \$/Meter/Mo.	
\$/KW/Mo. ....	13.5164
\$/kWh .....	0.0356

**Security Lights**

Basic Service \$/Meter/Mo.	
50 W HPS .....	6.75
100 W HPS .....	8.50
175 W HG .....	10.00
250 W HPS .....	14.00
400 W HPS .....	18.00
1000 W HPS .....	30.00

A breakdown of MMEU customer accounts and kWh sales is as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,937	22,817,516
Commercial SGS	577	29,475,639
Power LGS	10	17,930,144
Security Lights	326	<u>536,267</u>
		70,759,566

VII. FINANCIAL HIGHLIGHTS

MMEU's total revenues increased from \$5,502,825 in 2003 to \$6,585,693 in 2004 or an increase of 19.7%. The increase in MMEU revenues was due largely to an increase in kWh sales and the implementation of an increase in electric rates on January 1, 2004 and on July 1, 2004, as recommended by Latham & Associates, Inc.

MMEU's total disbursements decreased from \$7,125,664 in 2003 to \$7,072,179 in 2004 or decrease of \$53,485. This decrease in disbursements was mainly the result of fewer expenses upon completion of capital projects.

VIII. PROGRAM REVENUES

MMEU generated revenues from the following sources in 2003 and 2004:

	<u>2003</u>	<u>2004</u>
1. Charges for Service:		
Residential	\$1,898,549	\$2,165,840
Commercial	\$1,983,333	\$2,711,963
Power Sales	\$1,237,939	\$1,453,581
Security Lights	<u>\$ 62,904</u>	<u>\$ 71,124</u>
	\$5,182,725	\$6,402,508
2. Intergovernmental	\$ 92,973	\$ -0-
3. Use of Money/Property	\$ 74,082	\$ 34,506
4. Miscellaneous	<u>\$ 153,045</u>	<u>\$ 148,679</u>
TOTAL REVENUES	\$5,502,825	\$6,585,693

The receipts from charges for services increased by 23.5% in 2004 due to an increase in sales of electricity and the increase in electric rates. The increase in rates was necessitated by the increase in wholesale purchase power costs, as noted earlier.

IX. PROGRAM EXPENSES

A comparison of MMEU 2003 and 2004 disbursements is as follows:

	<u>2003</u>	<u>2004</u>
General Operating	\$6,231,011	\$6,173,747
Debt Service	<u>\$ 894,653</u>	<u>\$ 898,432</u>
TOTAL	\$7,125,664	\$7,072,179

Wholesale purchase power costs increased by \$1,023,391 or 60% from 2003 to 2004. This increase in costs was basically "passed on" to MMEU customers in the electric rate structure.

X. MMEU CASH BALANCES OR ASSETS

MMEU operates on a cash basis accounting system and basically has six funds. The main fund is the General Operating Fund through which most of the revenues are credited and expenses are paid. A comparison of the cash balances in the MMEU funds are as follows:

<u>Fund</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Balance</u> <u>12/31/2004</u>
1. General Operating	\$3,573,206	\$3,162,105
2. Capital Projects	(\$1,362,720)	(\$1,509,845)
3. Electric Surplus	\$ 691,000	\$ 691,000
4. Bond Sinking	\$ 149,739	\$ 223,913
5. Bond Reserve	\$ 716,500	\$ 716,500
6. Customer Deposits	<u>\$ 50,553</u>	<u>\$ 48,119</u>
TOTAL	\$3,818,278	\$3,331,792

The General Operating Fund is further divided into eight accounts. The accounts within the General Operating Fund are as follows:

<u>Account</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Balance</u> <u>12/31/2004</u>
1. Operating Account	\$3,276,949	\$2,953,693
2. Insurance Account	\$ 47,677	\$ 51,677
3. Vehicle Reserve – Distribution	\$ 82,975	\$ 75,845
4. Vehicle Reserve - Plant	\$ 12,671	\$ 956
5. Power Requirements	\$ 28,923	\$ 28,923
6. Heavy Equipment	\$ 123,003	\$ 3
7. Boiler Replacement	\$ 1,008	\$ 1,008
8. Sub I Improvement	<u>\$ 0</u>	<u>\$ 50,000</u>
TOTAL	\$3,573,206	\$3,162,105

The decline in cash assets can be attributed to the use of cash reserves to finance the completion of electrical substation improvements in 2004.

XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES

	<u>2003</u>	<u>2004</u>
Starting Cash Balance – All Funds	\$5,441,117	\$3,818,278
Total Revenues	\$5,502,815	\$6,585,693
Total Expenses	<u>\$7,125,664</u>	<u>\$7,072,179</u>
Ending Cash Balance – All Funds	\$3,818,278	\$3,331,792

XII. MMEU OUTSTANDING DEBT

The MMEU Board of Trustees issued \$3,570,000 in electric revenue notes on November 1, 2001 to finance the addition of electric generating units. The Board also issued \$3,595,000 in electric revenue notes on May 1, 2002 to finance improvements to the electric distribution system and Power Plant 2. The outstanding balance of the two revenue notes as of December 31, 2004 was as follows:

Series 2001 Electric Notes .....	\$2,645,000
Series 2002 Electric Notes .....	<u>\$2,605,000</u>
TOTAL	\$5,250,000

A comparison of the debt paid and outstanding balances for 2003 and 2004 is as follows:

	<u>2003</u>	<u>2004</u>
Starting Debt Balance	\$6,495,000	\$5,885,000
Debt Retired	- 610,000	- 635,000
Ending Debt Balance	<u>\$5,885,000</u>	<u>\$5,250,000</u>

XIII. SIGNIFICANT CAPITAL IMPROVEMENTS

MMEU completed the following capital improvement projects in 2004:

1. I.S. Substation near the Family Dollar Distribution Center in the South Industrial Park.
2. Completion of the 1A and 2A Fairbanks-Morse Generators at Plant 1.
3. Underbuilding of transmission line on CIPCO lines south of the Maquoketa City limits.

MMEU purchased the following capital equipment in 2004:

2004 Dodge RAM 4x4	February 2004	\$ 23,545.00
2004 Ford F-250 Plant Pickup	June 2004	\$ 20,715.00
2004 Ford Service Truck	June 2004	\$ 75,869.00
2005 Freightliner Lg. Digger	December 2004	\$172,172.50

In addition to these improvements, the Board of Trustees pledged \$350,000 to the Area Recreation Center (ARC) in 2004. The first payment of \$70,000 will be made in 2005.

XIV. ANALYSIS OF OVERALL FINANCIAL POSITION

MMEU overall financial position basically remained unchanged in 2004. While MMEU's total cash reserves declined slightly in 2004, this reduction was planned due to the use of cash reserves to finance various capital projects. There was a significant increase in wholesale purchase power, which was expected. The increase in purchase power costs was recovered by an increase in electric rates in 2004.

XV. ANALYSIS OF BALANCES AND TRANSACTIONS

There was a significant change in the MMEU General Operating Fund cash balance. The decline in cash balance of \$411,101 was the result of increases in materials and repairs, salaries, employee benefits and professional fees.

XVI. ANALYSIS OF VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGET AMOUNTS

There was a slight difference between the MMEU original budget and the actual budget results. The comparison was as follows:

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Expenditures:	\$6,542,844	\$7,217,377	\$7,072,179

The reasons for these slight variations were as follows:

1. Administration
  - a. Return checks
  - b. Unexpected City Hall expense
  - c. Utilities
  - d. Engineering
  - e. Worker's Comp
  - f. Sales tax
  
2. Power Plant
  - a. Extra lubricant expense
  - b. Building supplies
  - c. Safety supplies
  - d. Purchase power cost increase
  - e. Clothing expense

3. Distribution
  - a. Materials and hardware
  - b. Required extra conductor
  - c. Required extra poles
  - d. Increased need for supplies
  - e. Utilities
  - f. Meeting and training expense

## XVII. CURRENT KNOWN FACTS – EFFECT ON FINANCIAL POSITION

There are no known facts, decision, or conditions that are expected to have a significant effect on the MMEU financial position. MMEU does not anticipate any significant changes in operation expenses, revenues, or net assets in 2005.

As noted earlier, MMEU has just completed the first of five years of the R.P.G.I. contract for purchase power costs. While purchase power costs will increase in each of the next four years, the amounts of the increases are considered reasonable and will be passed through to MMEU customers.

MMEU has recently completed some very comprehensive and significant capital improvement projects that included additional generators, new substations, and distribution lines. While MMEU will continue to make improvements to the distribution system, it is planned that these improvements will be financed from the General Operating Fund and that additional debt will not be incurred in the near future.

## XVIII. FINAL COMMENTS

This MD&A report was written to assist the readers in understanding the results reported in the financial statements. It represents MMEU's first effort to follow GASB Statement No. 34. The MD&A portion of the MMEU annual audit will be included in all future audits. It will be upgraded and improved each year in order to help the reader to assess the overall "financial health" of the Maquoketa Municipal Electric Utility.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH**  
**BALANCES**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit A**

	<u>Enterprise</u>
Operating receipts:	
Use of money and property	\$ 34,506
Charges for service	6,402,508
Miscellaneous	<u>148,679</u>
Total operating receipts	<u>6,585,693</u>
Operating disbursements:	
General:	
Power purchased	2,723,344
Employee expense	895,318
Repairs and maintenance	695,889
Supplies and services	494,498
Capital outlay	327,906
Sales and use tax	285,294
Gas and oil	266,540
Insurance	256,694
Franchise fee	87,836
Economic development	55,337
Customer deposits	33,189
Utilities	27,065
Miscellaneous	24,837
Debt service:	
Bond principal payment	634,999
Interest	<u>263,433</u>
Total operating disbursements	<u>7,072,179</u>
Net change in cash balances	(486,486)
Cash balances beginning of year	<u>3,818,278</u>
Cash balances end of year	<u>\$ 3,331,792</u>
Cash basis net assets	
Unrestricted	<u>\$ 3,331,792</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH**  
**BALANCES**  
**PROPRIETARY FUNDS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

**Exhibit B**

	Enterprise Funds			Total
	General Operating	Bond Sinking	Nonmajor	
Operating receipts:				
Charges for service	\$ 6,402,508	\$ -	\$ -	\$ 6,402,508
Use of money and property	34,281	-	225	34,506
Miscellaneous	118,149	-	30,530	148,679
Total operating receipts	<u>6,554,938</u>	<u>-</u>	<u>30,755</u>	<u>6,585,693</u>
Operating disbursements:				
Power purchased	2,723,344	-	-	2,723,344
Employee expense	895,318	-	-	895,318
Repairs and maintenance	695,889	-	-	695,889
Supplies and services	494,498	-	-	494,498
Capital outlay	180,781	-	147,125	327,906
Sales and use tax	285,294	-	-	285,294
Gas and oil	266,540	-	-	266,540
Insurance	256,694	-	-	256,694
Franchise fee	87,836	-	-	87,836
Economic development	55,337	-	-	55,337
Customer deposits	-	-	33,189	33,189
Utilities	27,065	-	-	27,065
Miscellaneous	24,837	-	-	24,837
Debt service				
Bond principal payment	-	634,999	-	634,999
Interest	-	263,433	-	263,433
Total operating disbursements	<u>5,993,433</u>	<u>898,432</u>	<u>180,314</u>	<u>7,072,179</u>
Excess (deficiency) of receipts over (under) disbursements	<u>561,505</u>	<u>(898,432)</u>	<u>(149,559)</u>	<u>(486,486)</u>
Other financing sources (uses):				
Transfers in	-	972,606	-	972,606
Transfers out	(972,606)	-	-	(972,606)
Total other financing sources (uses)	<u>(972,606)</u>	<u>972,606</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(411,101)	74,174	(149,559)	(486,486)
Cash balances beginning of year	<u>3,573,206</u>	<u>149,739</u>	<u>95,333</u>	<u>3,818,278</u>
Cash balances end of year	<u>\$ 3,162,105</u>	<u>\$ 223,913</u>	<u>\$ (54,226)</u>	<u>\$ 3,331,792</u>
Cash basis net assets				
Unrestricted	<u>\$ 3,162,105</u>	<u>\$ 223,913</u>	<u>\$ (54,226)</u>	<u>\$ 3,331,792</u>

See notes to financial statements.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The financial statements include only the funds of the Maquoketa Municipal Electric Utility (the Utility). The Utility has 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. Based on the above criteria, the Utility has determined that there are no potential component units which must be included in the Utility's financial statements as of and for the year ended December 31, 2004.

The Maquoketa Municipal Electric Utility is includable as a component unit within the City of Maquoketa, Iowa, reporting entity because it has the potential to provide specific benefits to, or impose specific financial burdens on the City of Maquoketa, Iowa.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Cash Receipts, Disbursements, and Changes in Cash Balances reports information on all of the activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement.

Net assets are reported in two categories:

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

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

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor enterprise funds.

The Utility reports the following major enterprise funds:

*General Operating Fund*

Receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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*Bond Sinking Fund*

This fund is used to accumulate funds which are used to make the regularly scheduled principal and interest payments on the revenue notes payable.

C. Measurement Focus and Basis of Accounting

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

*Budgets and Budgetary Accounting*

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

**NOTE 2 – DEPOSITS AND POOLED INVESTMENTS**

The Utility's deposits in banks at December 31, 2004, 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 the depositories to insure there will be no loss of public funds.

The Utility is authorized by state 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 Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,201,730 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

**NOTE 3 – NOTES PAYABLE**

Annual debt service requirements to maturity for the revenue notes are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 655,000	\$ 238,820
2006	685,000	212,125
2007	715,000	183,010
2008	745,000	151,550
2009-2011	<u>2,450,000</u>	<u>240,550</u>
	<u>\$ 5,250,000</u>	<u>\$ 1,026,055</u>

(continued on next page)

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the net revenues of the Utility.
- (b) Establish an Electric Revenue Sinking Fund and make a monthly cash transfer equal to 1/6 of the interest coming due on the next succeeding interest payment date plus 1/12 of the principal coming due on the next succeeding principal payment date.
- (c) Establish a reserve account in the sum of \$716,500.
- (d) Establish rates to produce gross revenues sufficient to pay the expenses of operation and maintenance of the Utility, and leave a balance of net revenues sufficient to pay the annual installments of principal and interest on all outstanding notes.

The Utility is in compliance with the provisions noted above.

**NOTE 4 – COMPENSATED ABSENCES**

Utility employees accumulate vacation, sick leave, and compensatory time for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate maximum liability for unrecognized accrued employee benefits is as follows:

<u>Type of Benefit</u>	<u>Amount at December 31, 2004</u>
Vacation	\$ 45,820
Sick leave	103,754
Compensatory time	<u>1,480</u>
	<u>\$ 151,054</u>

This liability has been computed based on rates of pay in effect at December 31, 2004.

**NOTE 5 – INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended December 31, 2004, is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Bond Sinking	General Operating	\$ <u>972,606</u>

The purpose of the transfer is to place the money necessary to make payments on the revenue notes in the Bond Sinking Fund.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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**NOTE 6 – PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 3.70% of their annual covered salary, and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2004, 2003, and 2002, were \$45,389, \$38,968, and \$38,818, respectively, equal to the required contributions for each year.

**NOTE 7 – RISK MANAGEMENT**

The Utility is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 8 – COMMITMENTS**

The Utility has signed contracts for the purchase and installation of transmission lines and a substation synchronization project. At December 31, 2004, the amount remaining to be paid on these contracts is approximately \$30,000.

The Utility has entered into a development agreement with the City of Maquoketa (City), the Maquoketa Industrial Development Assistance Service, Jackson County, and Family Dollar Services, Inc. The agreement calls for the City to make a grant to the Utility of \$1,300,000 to fund electric improvements to the industrial park on the south side of the City and to the property purchased by Family Dollar Services, Inc. The Utility will make an annual payment to the City each July 1 from 2002 through 2017 equal to the difference between the debt service payment due on bonds issued by the City to fund the electric improvements and certain other public improvements, minus the sum of \$87,000. This payment will be \$48,745 annually.

**NOTE 9 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by Maquoketa Municipal Electric Utility. The statements which might impact the Utility are as follows:

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

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Statement No. 40, *Deposit and Investment Risk Disclosures*, issued March 2003, which will be effective for the Utility for the year ending December 31, 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the Utility for the year ending December 31, 2005. This statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Utility for the year ending December 31, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Utility for the year ending December 31, 2009. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The Utility's management is working with the auditors to determine the effect these Statements will have on the Utility's financial statements.

**NOTE 10 – RELATED PARTY TRANSACTIONS**

As stated in Note 1, Maquoketa Municipal Electric Utility is a component unit of the City of Maquoketa, Iowa. The City pays the Utility for electric service to the City-owned facilities and also pays the Utility for some labor performed by Utility employees on City property. These amounts were as follows for the year ended December 31, 2004:

Electric service	\$	210,983
Labor		<u>16,505</u>
	\$	<u>227,488</u>

**NOTE 11 – REVENUE NOTES COMPLIANCE**

A provision of the revenue notes requires the Utility to establish and adjust rates to produce gross revenues at least sufficient to pay the expenses of operations and maintenance of the Utility and to leave a balance of net revenues sufficient to pay the annual installment of principal and interest on the notes. For the year ended December 31, 2004, the Utility did not produce revenues sufficient to meet this provision. The Utility implemented rate increases during 2004 which management feels will help present noncompliance in the future.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**COMPARISON OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES –**  
**ACTUAL TO BUDGET**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2004**

	Actual	Budgeted Amounts		Variance
		Original Budget	Final Budget	Favorable (Unfavorable)
Receipts:				
Use of money and property	\$ 34,506	\$ 67,198	\$ 67,626	\$ (33,120)
Charges for service	6,402,508	5,137,000	6,320,739	81,769
Miscellaneous	148,679	57,500	91,323	57,356
Total receipts	6,585,693	5,261,698	6,479,688	106,005
Disbursements	7,072,179	6,542,844	7,217,377	145,198
Deficiency of receipts under disbursements	(486,486)	(1,281,146)	(737,689)	251,203
Cash balances beginning of year	3,818,278	3,818,278	3,818,278	-
Cash balances end of year	\$ 3,331,792	\$ 2,537,132	\$ 3,080,589	\$ 251,203

**OTHER SUPPLEMENTARY INFORMATION**

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH**  
**BALANCES**  
**NONMAJOR ENTERPRISE FUNDS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

Schedule 1

	Enterprise				Total
	Capital Projects	Electric Surplus	Bond Reserve	Customer Deposits	
Operating receipts:					
Use of money and property	\$ -	\$ -	\$ -	\$ 225	\$ 225
Miscellaneous	-	-	-	30,530	30,530
Total operating receipts	-	-	-	30,755	30,755
Operating disbursements:					
Capital outlay	147,125	-	-	-	147,125
Customer deposits	-	-	-	33,189	33,189
Total operating disbursements	147,125	-	-	33,189	180,314
Net change in cash balances	(147,125)	-	-	(2,434)	(149,559)
Cash balances beginning of year	(1,362,720)	691,000	716,500	50,553	95,333
Cash balances end of year	<u>\$ (1,509,845)</u>	<u>\$ 691,000</u>	<u>\$ 716,500</u>	<u>\$ 48,119</u>	<u>\$ (54,226)</u>
Cash basis net assets					
Unrestricted	<u>\$ (1,509,845)</u>	<u>\$ 691,000</u>	<u>\$ 716,500</u>	<u>\$ 48,119</u>	<u>\$ (54,226)</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**  
**GENERAL OPERATING FUND**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

	Operating Account	Insurance Account
Operating receipts:		
Charges for service:		
Residential	\$ 2,165,840	\$ -
Commercial	2,711,963	-
Security lights	71,124	-
Power sales	1,453,581	-
	<u>6,402,508</u>	<u>-</u>
Use of money and property:		
Interest on investments	34,281	-
Miscellaneous	5,297	-
	<u>39,578</u>	<u>-</u>
Miscellaneous:		
Refunds	3,443	-
Miscellaneous	109,409	-
	<u>112,852</u>	<u>-</u>
Total operating receipts	<u>6,554,938</u>	<u>-</u>
Operating disbursements:		
Administration	1,053,570	-
Power plant	3,656,483	-
Distribution	1,081,884	-
Total operating disbursements	<u>5,791,937</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>763,001</u>	<u>-</u>
Other financing sources (uses):		
Transfers in (out):		
Operating account	-	4,000
Sub I improvement account	(50,000)	-
Bond sinking	(972,606)	-
Insurance account	(4,000)	-
Vehicle reserve	(24,651)	-
Heavy equipment account	(35,000)	-
Total other financing sources (uses)	<u>(1,086,257)</u>	<u>4,000</u>
Net change in cash balances	(323,256)	4,000
Cash balances beginning of year	<u>3,276,949</u>	<u>47,677</u>
Cash balances end of year	<u>\$ 2,953,693</u>	<u>\$ 51,677</u>

Schedule 2

Vehicle Reserve - Distribution	Vehicle Reserve - Plant	Power Requirements Account	Heavy Equipment Account	Boiler Replacement Account	Sub I Improvement Account	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,165,840
-	-	-	-	-	-	2,711,963
-	-	-	-	-	-	71,124
-	-	-	-	-	-	1,453,581
-	-	-	-	-	-	6,402,508
-	-	-	-	-	-	34,281
-	-	-	-	-	-	5,297
-	-	-	-	-	-	39,578
-	-	-	-	-	-	3,443
-	-	-	-	-	-	109,409
-	-	-	-	-	-	112,852
-	-	-	-	-	-	6,554,938
-	-	-	-	-	-	1,053,570
-	-	-	-	-	-	3,656,483
22,781	20,715	-	158,000	-	-	1,283,380
22,781	20,715	-	158,000	-	-	5,993,433
(22,781)	(20,715)	-	(158,000)	-	-	561,505
15,651	-	-	35,000	-	50,000	104,651
-	-	-	-	-	-	(50,000)
-	-	-	-	-	-	(972,606)
-	-	-	-	-	-	(4,000)
-	9,000	-	-	-	-	(15,651)
-	-	-	-	-	-	(35,000)
15,651	9,000	-	35,000	-	50,000	(972,606)
(7,130)	(11,715)	-	(123,000)	-	50,000	(411,101)
82,975	12,671	28,923	123,003	1,008	-	3,573,206
\$ 75,845	\$ 956	\$ 28,923	\$ 3	\$ 1,008	\$ 50,000	\$ 3,162,105

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF DISBURSEMENTS**  
**OPERATING ACCOUNT**  
**YEAR ENDED DECEMBER 31, 2004**

**Schedule 3**

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Administration:	
Salaries	\$ 174,283
FICA and IPERS	23,520
Insurance	218,076
Sales and use tax	285,294
Franchise fee	87,836
Materials and repair	12,237
Postage	16,787
Meeting expense	2,780
Dues	23,437
Supplies	15,917
Professional fees	97,343
Utilities	7,311
Advertising	5,135
Energy conservation	14,069
Economic development	55,337
Miscellaneous	<u>14,208</u>
 Total administration	 <u>1,053,570</u>
 Power Plant:	
Salaries	228,628
FICA and IPERS	30,636
Purchased power	2,723,344
Insurance	38,618
Materials and repair	347,402
Meeting expense	466
Supplies	13,718
Utilities	3,977
Natural gas	117,501
Fuel oil	137,947
Lubricants	<u>14,246</u>
 Total power plant	 <u>3,656,483</u>
	(continued)

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF DISBURSEMENTS**  
**OPERATING ACCOUNT**  
**YEAR ENDED DECEMBER 31, 2004**

**Schedule 3**  
**(continued)**

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Distribution:	
Salaries	\$ 386,464
FICA and IPERS	51,787
Materials and repair	336,250
Meeting expense	8,749
Supplies	7,806
Utilities	15,777
Gas and oil	11,092
Tools	115,091
Conductor	77,865
Transformer	39,057
Meters	21,317
Miscellaneous	<u>10,629</u>
Total distribution	<u>1,081,884</u>
Total disbursements	<u>\$ 5,791,937</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF INDEBTEDNESS**  
**YEAR ENDED DECEMBER 31, 2004**

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<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Electric revenue notes	November 1, 2001	4.15-4.80%	\$ 3,570,000
Electric revenue notes	May 1, 2002	4.15-4.80%	3,595,000

**Schedule 4**

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 2,965,000	\$ -	\$ 320,000	\$ 2,645,000	\$ 132,126	\$ -
<u>2,920,000</u>	<u>-</u>	<u>315,000</u>	<u>2,605,000</u>	<u>131,308</u>	<u>-</u>
<u>\$ 5,885,000</u>	<u>\$ -</u>	<u>\$ 635,000</u>	<u>\$ 5,250,000</u>	<u>\$ 263,434</u>	<u>\$ -</u>



CPAs & BUSINESS ADVISORS

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

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Utility Board of Trustees  
Maquoketa Municipal Electric Utility  
Maquoketa, Iowa

We have audited the financial statements of the business type activities, each major fund, and the remaining aggregate fund information of Maquoketa Municipal Electric Utility as of and for the year ended December 31, 2004, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated February 22, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maquoketa Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Maquoketa Municipal Electric Utility's operations for the year ended December 31, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Maquoketa Municipal Electric Utility. 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. There were no prior year statutory comments.

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### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maquoketa Municipal Electric Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Maquoketa Municipal Electric Utility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Prior year reportable condition I-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Maquoketa Municipal Electric Utility and other parties to whom Maquoketa Municipal Electric Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Maquoketa Municipal Electric Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Dubuque, Iowa  
February 22, 2005

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED DECEMBER 31, 2004**

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**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITION**

I-A-04     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that cash collections, bank deposits, and cash receipts postings are at times done by the same person. We also noted that the person who prepares the bank reconciliation is also an authorized check signer.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We continue to assess obtaining this goal with the current staff size.

Conclusion - Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04     Official Depositories - A resolution naming official depositories has been approved by the Utility Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

II-B-04     Certified Budget - Disbursements during the year ended December 31, 2004, did not exceed amounts budgeted.

II-C-04     Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.

II-D-04     Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-E-04     Business Transactions - No business transactions between the Utility and Utility officials or employees that appear to represent a conflict of interest were noted.

II-F-04     Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

II-G-04     Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED DECEMBER 31, 2004**

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**Part II: Other Findings Related to Statutory Reporting: (continued)**

II-H-04     Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

II-I-04     Revenue Notes – During the year ended December 31, 2004, the Utility did not meet the provision of the revenue notes that requires the net revenues of the Utility be sufficient to pay the expenses of operation and maintenance of the Utility and to leave a balance of net revenues sufficient to pay the principal and interest on the revenue notes.

Recommendation – The Utility implemented a rate increase during 2004 which took effect in two phases, January 1 and July 1. We recommend that management continue to monitor the net revenues of the Utility to insure compliance with the provisions of the revenue notes.

Response – We did raise our rates, and we do have reserve accounts for coverage.

Conclusion – Response accepted.