

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
Maquoketa, Iowa

**FINANCIAL STATEMENTS**  
December 31, 2007

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**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
UTILITY BOARD OF TRUSTEES  
December 31, 2007**

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

## INDEPENDENT AUDITOR'S REPORT

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, 2007, 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, 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2008, 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 11 and on page 21 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.

Maquoketa, Iowa  
March 17, 2008

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

**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 ending December 31, 2007. The information in this MD&A should be considered in conjunction with the financial statements that follow this section.

**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 approximately 2,863 residential customers, 576 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 1,567,687 kWh of power in 2007 or about 1.9% of the total power needs of the City.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
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December 31, 2007**

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 2007, MMEU purchased 79,552,283 KWH or 98.1% of its power needs from Ameren Energy through the R.P.G.I. contract.

**IV. OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A serves as an introduction to the financial statements and represents management's examination and analysis of MMEU's financial condition and performance. The financial statements contain information about MMEU based on 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 calendar year and provides 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 the Board's 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 shared services and joint efforts. MMEU also provides water meter reading services to the City for \$0.35 per month per meter.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

**VI. MMEU BUDGET AND RATES**

MMEU has adopted a calendar year budget that reports 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. Monthly MMEU rates are as follows:

<b>Residential</b>		
Basic Service \$/Meter		10.00
\$/KW:		
\$/kWh 1 <sup>st</sup> 600		0.0790
\$/kWh over 600 & Elec Ht		0.0690
<b>SGS Non-Demand/Municipal</b>		
Basic Service \$/Meter:		20.00
\$/KW		
\$/kWh 1 <sup>st</sup> 4200		0.0906
\$kWh over 4200 & Elec Ht		0.0806
<b>LGS-50 Demand</b>		
Basic Service \$/Meter:		
\$/KW		13.5164
\$/kWh		0.0436
<b>LGS-2000 Demand</b>		
Basic Service \$/Meter:		
\$/KW		13.5164
\$/kWh		0.0356
<b>Security Lights</b>		
Basic Service \$/Meter:		
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

Sales by type of customer account are as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,863	24,613,705
Commercial SGS	576	31,357,939
Power LGS	10	20,712,670
Security Lights	326	541,790

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

**VII. FINANCIAL HIGHLIGHTS**

MMEU's total revenues increased from \$7,565,406 in 2006 to \$7,826,315 in 2007, an increase of 3.5%. The increase in MMEU revenues was due largely to an increase in large general service usage.

MMEU's total disbursements increased from \$6,767,088 in 2006 to \$8,189,057 in 2007, an increase of \$1,421,969. Although power costs decreased \$398,449, gas and oil cost used to generate power internally increased \$564,097. Improvements consisting of Sub I Transformer purchase, fuel tank replacement at plant 1, transformer FR3 oil replacement and distribution building improvement costs were \$1,266,492 in 2007.

**VIII. PROGRAM REVENUES**

MMEU generated revenues from the following sources in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
1. Charges for Services:		
Residential	\$ 2,463,010	\$ 2,505,748
Commercial	3,083,225	3,115,187
Power Sales	1,567,471	1,774,893
Security Lights	<u>73,620</u>	<u>72,266</u>
	7,187,326	7,468,094
2. Intergovernmental	-	-
3. Use of Money/Property	186,442	205,018
4. Miscellaneous	<u>191,638</u>	<u>153,203</u>
<b>Total Revenues</b>	<b><u>\$ 7,565,406</u></b>	<b><u>\$ 7,826,315</u></b>

**IX. PROGRAM EXPENSES**

A comparison of MMEU 2006 and 2007 disbursements is as follows:

	<u>2006</u>	<u>2007</u>
General Operating	\$ 5,869,963	\$ 7,291,047
Debt Service	<u>897,125</u>	<u>898,010</u>
<b>Total</b>	<b><u>\$ 6,767,088</u></b>	<b><u>\$ 8,189,057</u></b>

The \$1,421,969 increase is due to the purchase of the sub I project transformer and replacement of FR3 oil in a transformer at plant one. The fuel tanks at plant one were also replaced.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

**X. MMEU CASH BALANCES OR ASSETS**

MMEU operates on a cash basis accounting system using six funds. Almost all revenues are credited and expenses paid through the General Operating Fund. The Board authorized closing the Capital Projects fund this year. A comparison of the cash balances in the MMEU funds are as follows:

<u>Fund</u>	<u>Balance 12/31/2006</u>	<u>Balance 12/31/2007</u>
1. General Operating	\$ 3,490,507	\$ 2,927,286
2. Capital Projects	-	200,000
3. Electric Surplus	171,500	171,500
4. Bond Sinking	224,611	224,368
5. Bond Reserve	716,500	716,500
6. Customer Deposits	57,053	57,775
<b>Total</b>	<u>\$ 4,660,171</u>	<u>\$ 4,297,429</u>

The General Operating Fund is divided into nine accounts.

<u>Account</u>	<u>Balance 12/31/2006</u>	<u>Balance 12/31/2007</u>
1. Operating Account	\$ 2,475,358	\$ 2,537,969
2. Insurance Account	57,872	61,872
3. Vehicle Reserve - Distribution	129,318	229,318
4. Vehicle Reserve – Plant	22,956	35,956
5. Power Requirements	-	-
6. Heavy Equipment	30,003	30,723
7. Boiler Replacement	-	-
8. Sub I Improvement	625,000	22,356
9. Fuel Tank Replacement	150,000	9,092
<b>Total</b>	<u>\$ 3,490,507</u>	<u>\$ 2,927,286</u>

Note that cash assets were used to close out the Capital Projects fund.

**XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES**

	<u>2006</u>	<u>2007</u>
Starting Cash Balance – All Funds	\$ 3,861,853	\$ 4,660,171
Total Revenues	7,565,406	7,826,315
Total Expenses	<u>6,767,088</u>	<u>8,189,057</u>
Ending Cash Balance – All Funds	<u>\$ 4,660,171</u>	<u>\$ 4,297,429</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

**XII. MMEU OUTSTANDING DEBT**

The MMEU Board of Trustees issued \$3,570,000 in electric revenue notes on November 1, 2001 to finance additional 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 balances of the two revenue notes as of December 31, 2007 were as follows:

Series 2001 Electric Notes	\$ 1,610,000
Series 2002 Electric Notes	<u>1,585,000</u>
<b>Total</b>	<b><u>\$ 3,195,000</u></b>

A comparison of the debt paid and outstanding balances for 2005 and 2006 is as follows :

	<u>2006</u>	<u>2007</u>
Starting Debt Balance	\$ 4,595,000	\$ 3,910,000
Debt Retired	<u>(685,000)</u>	<u>(715,000)</u>
Ending Debt Balance	<u>\$ 3,910,000</u>	<u>\$ 3,195,000</u>

**XIII. SIGNIFICANT CAPITAL IMPROVEMENTS**

MMEU completed the following capital improvement projects in 2007:

1. Sub I transformer.
2. FR3 oil replacement in transformer.
3. Building improvements at distribution plant.

Capital equipment purchased in 2007:

Replace fuel tanks at power plant one.

In addition to these improvements, the Board of Trustees pledged \$350,000 to the Area Recreation Center (ARC) in 2004. The second payment of \$70,000 was made during 2007.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

XIV. ANALYSIS OF OVERALL FINANCIAL POSITION

MMEU overall financial position decreased by \$362,742 during 2007. This decrease was due to additional capital improvements and equipment purchases of approximately \$1,300,000.

XV. ANALYSIS OF BALANCES AND TRANSACTIONS

The net loss was due to increased fuel and operating costs and additional capital improvements and equipment purchases. MMEU was required to generate more internal power than normal due to MISO marketing rules.

XVI. ANALYSIS OF VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGET AMOUNTS

There was a relatively small difference between the MMEU original budget and the actual results.

	<u>Original Budget</u>	<u>Actual</u>
Expenditures	\$9,085,200	\$8,189,057

The difference resulted from variations in the following items:

1. Administration
  - a. Return checks
  - b. Legal fees due to union negotiations
  - c. Utility insurance
  - d. Dues increase
2. Power Plant
  - a. Fuel costs (diesel and natural gas)
  - b. Lubricants and water treatment costs
  - c. Utilities
3. Distribution
  - a. Material and hardware
  - b. Conductor
  - c. Meter parts and equipment
  - d. Salaries and benefits

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007**

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

There are no known facts, decisions, or conditions that are expected to have a significant effect on MMEU's financial position. MMEU does not anticipate any significant changes in operating expenses, revenues, or net assets in 2008.

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

MMEU has recently completed some very comprehensive and significant capital improvement projects. MMEU will continue to make improvements to the distribution system. These improvements will be financed from the General Operating Fund without incurring additional debt.

In 2008, MMEU will complete the fifth and final year of purchase power contract with R.P.G.I. MMEU has signed a long term power purchase agreement with WPPI (Wisconsin Public Power Incorporated) which will commence January 1, 2009 and remain in effect until December 31, 2037. The contract can be terminated by either party upon five year written notice by either party.

As approved by the Board of Trustees in December 2007, the 2001-2002 bonds will be refinanced during 2008 and become part of the Sub I Project.

**XVIII. FINAL COMMENTS**

This MD&A report was written to assist readers in understanding the results reported in the financial statements. It represents MMEU's effort to follow GASB Statement No. 34. The MD&A will be upgraded and improved each year in order to help the reader assess the financial condition of the Maquoketa Municipal Electric Utility.

**BASIC FINANCIAL STATEMENTS**

**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, 2007**

	Enterprise
Operating receipts:	
Charges for services	\$ 7,468,094
Use of money and property	205,018
Miscellaneous	153,203
Total operating receipts	7,826,315
Operating disbursements:	
General:	
Power purchased	2,684,521
Employee expense	1,067,889
Contract labor	15,544
Repairs and maintenance	450,010
Supplies and services	90,836
Capital outlay	1,291,073
Sales and use tax	276,632
Gas and oil	716,270
Insurance	313,509
Franchise fee	143,800
Economic development	107,827
Energy conservation	11,142
Customer deposits	33,520
Utilities	32,882
Miscellaneous	55,592
Debt service:	
Bond principal payment	715,000
Interest	183,010
Total operating disbursements	8,189,057
Net change in cash balances	(362,742)
Cash balances beginning of year	4,660,171
Cash balances end of year	\$ 4,297,429
Cash basis net assets	
Unrestricted	\$ 4,297,429

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and note to financial statements.

**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, 2007**

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>General Operating</u>	<u>Bond Sinking</u>	<u>Nonmajor</u>	
Operating receipts:				
Charges for services	\$ 7,468,094	\$ -	\$ -	\$ 7,468,094
Use of money and property	203,515	-	1,503	205,018
Miscellaneous	120,464	-	32,739	153,203
Total operating receipts	<u>7,792,073</u>	<u>-</u>	<u>34,242</u>	<u>7,826,315</u>
Operating disbursements:				
Power purchased	2,684,521	-	-	2,684,521
Employee expense	1,067,889	-	-	1,067,889
Contract labor	15,544	-	-	15,544
Repairs and maintenance	450,010	-	-	450,010
Supplies and services	90,836	-	-	90,836
Capital outlay	1,291,073	-	-	1,291,073
Sales and use tax	276,632	-	-	276,632
Gas and oil	716,270	-	-	716,270
Insurance	313,509	-	-	313,509
Franchise fee	143,800	-	-	143,800
Economic development	107,827	-	-	107,827
Energy conservation	11,142	-	-	11,142
Customer deposits	-	-	33,520	33,520
Utilities	32,882	-	-	32,882
Miscellaneous	55,592	-	-	55,592
Debt service:				
Bond principal payment	-	715,000	-	715,000
Interest	-	183,010	-	183,010
Total operating disbursements	<u>7,257,527</u>	<u>898,010</u>	<u>33,520</u>	<u>8,189,057</u>
Excess (deficiency) of receipts over (under) disbursements	<u>534,546</u>	<u>(898,010)</u>	<u>722</u>	<u>(362,742)</u>
Other financing sources (uses):				
Operating transfers in	-	897,767	200,000	1,097,767
Operating transfers out	<u>(1,097,767)</u>	<u>-</u>	<u>-</u>	<u>(1,097,767)</u>
Total other financing sources (uses)	<u>(1,097,767)</u>	<u>897,767</u>	<u>200,000</u>	<u>-</u>
Net change in cash balances	(563,221)	(243)	200,722	(362,742)
Cash balance beginning of year	<u>3,490,507</u>	<u>224,611</u>	<u>945,053</u>	<u>4,660,171</u>
Cash balance end of year	<u>\$ 2,927,286</u>	<u>\$ 224,368</u>	<u>\$ 1,145,775</u>	<u>\$ 4,297,429</u>
Cash basis net assets				
Unrestricted	<u>\$ 2,927,286</u>	<u>\$ 224,368</u>	<u>\$ 1,145,775</u>	<u>\$ 4,297,429</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

**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, 2007.

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, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 cash basis for receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not report 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 statutorily prescribed procedures.

**NOTE 2 – DEPOSITS AND POOLED INVESTMENTS**

The Utility's deposits in banks at December 31, 2007, 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 \$1,077,950 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007**

**NOTE 3 – NOTES PAYABLE**

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 745,000	\$ 151,550	\$ 896,550
2009	780,000	117,655	897,655
2010	815,000	81,005	896,005
2011	855,000	41,890	896,890
	<u>\$3,195,000</u>	<u>\$ 392,100</u>	<u>\$3,587,100</u>

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, 2007</u>
Vacation	\$ 72,890
Sick leave	292,339
Compensatory time	2,218
	<u>\$ 367,447</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007**

**NOTE 5 – INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended December 31, 2007 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Bond Sinking	General Operating	\$ 897,767
Capital Projects	General Operating	<u>200,000</u>
		<u>\$ 1,097,767</u>

The purpose of the transfer to the Bond Sinking Fund was to allocate amounts required for payments on revenue notes.

The purpose of the transfer to the Capital project Fund was to set aside amounts to be used to pay the initial investment to WPPI for new power purchase contract.

**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 for 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 3.90% of their annual covered salary, and the Utility is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2007, 2006, and 2005, were \$54,873, \$51,314, and \$48,416, respectively, and each 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 through 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 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 \$87,000. This annual payment is \$48,745.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

**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 may affect the Utility are as follows:

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 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 City-owned facilities and also pays the Utility for labor performed by Utility employees on city property. For the year ended December 31, 2007, the utility received the following amounts from the City:

Electric service	\$ 251,829
Labor	<u>13,750</u>
	<u>\$ 265,579</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, 2007, the Utility produced revenues sufficient to meet this provision. The Utility implemented rate increases during 2005 which management deemed necessary to prevent future noncompliance.

**REQUIRED SUPPLEMENTAL INFORMATION**

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES**  
**ACTUAL TO BUDGET**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended December 31, 2007**

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Variance Final to Actual Favorable (Unfavorable)</u>
		<u>Original Budget</u>	<u>Final Budget</u>	
Receipts:				
Use of money and property	\$ 205,018	\$ 161,200	\$ 161,200	\$ 43,818
Charges for services	7,468,094	7,325,000	7,325,000	143,094
Miscellaneous	153,203	120,370	120,370	32,833
Total receipts	<u>7,826,315</u>	<u>7,606,570</u>	<u>7,606,570</u>	<u>219,745</u>
Disbursements	<u>8,189,057</u>	<u>9,085,200</u>	<u>9,085,200</u>	<u>468,240</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(362,742)</u>	<u>(1,478,630)</u>	<u>(1,478,630)</u>	<u>1,115,888</u>
Other financing sources (uses):				
Operating transfers in	1,097,767	1,673,767	1,673,767	(576,000)
Operating transfers out	<u>(1,097,767)</u>	<u>(1,673,767)</u>	<u>(1,673,767)</u>	<u>576,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(362,742)	(1,478,630)	(1,478,630)	1,115,888
Cash balance beginning of year	<u>3,861,853</u>	<u>4,510,253</u>	<u>4,510,253</u>	<u>(648,400)</u>
Cash balance end of year	<u>\$ 3,499,111</u>	<u>\$ 3,031,623</u>	<u>\$ 3,031,623</u>	<u>\$ 467,488</u>
Cash basis net assets				
Unrestricted	<u>\$ 3,499,111</u>	<u>\$ 3,031,623</u>	<u>\$ 3,031,623</u>	<u>\$ 467,488</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**OTHER SUPPLEMENTAL 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, 2007**

	<u>Capital Projects</u>	<u>Electric Surplus</u>	<u>Bond Reserve</u>	<u>Customer Deposits</u>	<u>Total</u>
Operating receipts:					
Use of money and property	\$ -	\$ -	\$ -	\$ 1,503	\$ 1,503
Miscellaneous	-	-	-	32,739	32,739
Total operating receipts	-	-	-	34,242	34,242
Operating disbursements:					
Customer deposits	-	-	-	33,520	33,520
Excess of receipts over disbursements	-	-	-	722	722
Other financing sources (uses):					
Operating transfers in	200,000	-	-		200,000
Operating transfers out		-	-		-
Total other financing sources (uses)	200,000	-	-	-	200,000
Net change in cash balances	200,000	-	-	722	200,722
Cash balance beginning of year	-	171,500	716,500	57,053	945,053
Cash balance end of year	<u>\$ 200,000</u>	<u>\$ 171,500</u>	<u>\$ 716,500</u>	<u>\$ 57,775</u>	<u>\$ 1,145,775</u>
Cash basis net assets					
Unrestricted	<u>\$ 200,000</u>	<u>\$ 171,500</u>	<u>\$ 716,500</u>	<u>\$ 57,775</u>	<u>\$ 1,145,775</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**  
**GENERAL OPERATING FUND**  
**As Of And For The Year Ended December 31, 2007**

	<u>Operating Account</u>	<u>Insurance Account</u>	<u>Vehicle Reserve- Distribution</u>
Operating receipts:			
Charges for services:			
Residential	\$ 2,505,748	\$ -	\$ -
Comercial	3,115,187	-	-
Security lights	72,266	-	-
Power sales	1,774,893	-	-
	<u>7,468,094</u>	<u>-</u>	<u>-</u>
Use of money and property:			
Interest on investments	203,515	-	-
Miscellaneous	24,885	-	-
	<u>228,400</u>	<u>-</u>	<u>-</u>
Miscellaneous:			
Refunds	4,506	-	-
Miscellaneous	91,073	-	-
	<u>95,579</u>	<u>-</u>	<u>-</u>
Total operating receipts	<u>7,792,073</u>	<u>-</u>	<u>-</u>
Operating disbursements:			
Administration	1,184,295	-	-
Power plant	3,803,956	-	-
Distribution	1,101,444	-	-
	<u>6,089,695</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,702,378</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):			
Transfers in (out):			
Operating account	-	4,000	100,000
Insurance account	(4,000)	-	-
Vehicle reserve distribution	(100,000)	-	-
Vehicle reserve plant	(13,000)	-	-
Heavy equipment account	(15,000)	-	-
Sub 1 improvement account	(400,000)	-	-
Fuel tank replacement	(10,000)	-	-
Bond sinking account	(897,767)	-	-
Capital projects account	(200,000)	-	-
Total other financing sources (uses)	<u>(1,639,767)</u>	<u>4,000</u>	<u>100,000</u>
Net change in cash balances	62,611	4,000	100,000
Cash balance, beginning of year	<u>2,475,358</u>	<u>57,872</u>	<u>129,318</u>
Cash balance end of year	<u>\$ 2,537,969</u>	<u>\$ 61,872</u>	<u>\$ 229,318</u>

Schedule 2

<u>Vehicle Reserve-Plant</u>	<u>Power Requiremnts Account</u>	<u>Heavy Equipment Account</u>	<u>Boiler Replacement Account</u>	<u>Sub I Improvement Account</u>	<u>Fuel Tank Replacement</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,505,748
-	-	-	-	-	-	3,115,187
-	-	-	-	-	-	72,266
-	-	-	-	-	-	1,774,893
-	-	-	-	-	-	7,468,094
-	-	-	-	-	-	203,515
-	-	-	-	-	-	24,885
-	-	-	-	-	-	228,400
-	-	-	-	-	-	4,506
-	-	-	-	-	-	91,073
-	-	-	-	-	-	95,579
-	-	-	-	-	-	7,792,073
-	-	-	-	-	-	1,184,295
-	-	-	-	-	-	3,803,956
-	-	14,280	-	1,002,644	150,908	2,269,276
-	-	14,280	-	1,002,644	150,908	7,257,527
-	-	(14,280)	-	(1,002,644)	(150,908)	534,546
13,000	-	15,000	-	400,000	10,000	542,000
-	-	-	-	-	-	(4,000)
-	-	-	-	-	-	(100,000)
-	-	-	-	-	-	(13,000)
-	-	-	-	-	-	(15,000)
-	-	-	-	-	-	(400,000)
-	-	-	-	-	-	(10,000)
-	-	-	-	-	-	(897,767)
-	-	-	-	-	-	(200,000)
13,000	-	15,000	-	400,000	10,000	(1,097,767)
13,000	-	720	-	(602,644)	(140,908)	(563,221)
22,956	-	30,003	-	625,000	150,000	3,490,507
\$ 35,956	\$ -	\$ 30,723	\$ -	\$ 22,356	\$ 9,092	\$ 2,927,286

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
SCHEDULE OF DISBURSEMENTS  
OPERATING ACCOUNT  
Year Ended December 31, 2007**

## Administration:

Salaries	\$ 213,657
FICA and IPERS	28,864
Insurance	272,759
Sales and use tax	276,632
Franchise fee	143,800
Materials and repairs	15,139
Postage	13,025
Meeting expense	3,550
Dues	31,598
Supplies	10,645
Professional fees	36,419
Utilities	8,447
Advertising	1,856
Energy conservation	11,142
Debt service - Family Dollar	33,077
Economic development	74,750
Miscellaneous	8,935
Total administration	1,184,295

## Power Plant:

Salaries	250,639
FICA and IPERS	33,644
Purchased power	2,684,521
Insurance	40,750
Materials and repairs	75,385
Meeting expense	473
Supplies	12,722
Utilities	6,447
Natural gas	172,438
Fuel oil	507,929
Lubricants	19,008
Total power plant	3,803,956

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF DISBURSEMENTS**  
**OPERATING ACCOUNT**  
**Year Ended December 31, 2007**

Distribution:		
Salaries	\$	476,676
FICA and IPERS		64,409
Contract labor		15,544
Materials and repairs		149,590
Meeting expense		4,898
Supplies		18,025
Utilities		17,988
Gas and oil		16,895
Tools		12,965
Conductor and poles		66,113
Mapping		10,300
Transformers		99,103
Meters		31,715
Building Addition		40,530
Transformer Retrofill FR3		72,411
Miscellaneous		4,282
Total distribution		<u>1,101,444</u>
Total disbursements	\$	<u><u>6,089,695</u></u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF INDEBTEDNESS**  
**Year Ended December 31, 2007**

<b>Obligation</b>	<b>Date of Issuance</b>	<b>Interest Rates</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Issued During Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>	<b>Interest Due and Unpaid</b>
Electric revenue notes	November 1, 2001	4.15 - 4.8%	\$ 3,570,000	\$ 1,970,000	\$ -	\$ 360,000	\$ 1,610,000	\$ 90,795	\$ -
Electric revenue notes	May 1, 2002	4.15 - 4.8%	\$ 3,595,000	<u>1,940,000</u>	<u>-</u>	<u>355,000</u>	<u>1,585,000</u>	<u>92,215</u>	<u>-</u>
				<u>\$ 3,910,000</u>	<u>\$ -</u>	<u>\$ 715,000</u>	<u>\$ 3,195,000</u>	<u>\$ 183,010</u>	<u>\$ -</u>

**INDEPENDENT AUDITOR'S  
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**

Utility Board of Trustees  
Maquoketa Municipal Electric Utility  
Maquoketa, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Maquoketa Municipal Electric Utility, as of and for the year ended December 31, 2007, which collectively comprise the Utility's basic financial statements listed on the table of contents and have issued our report thereon dated March 17, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maquoketa Municipal Electric Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of Maquoketa Municipal Electric Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Maquoketa Municipal Electric Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Maquoketa Municipal Electric Utility's ability to initiate, authorize, record, process, or report financial data reliable in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of Maquoketa Municipal Electric Utility's financial statements that is more than inconsequential will not be prevented or detected by Maquoketa Municipal Electric Utility's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Cost to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood a material misstatement of financial statements will not be prevented or detected by Maquoketa Municipal Electric Utility's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an effect 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.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Maquoketa Municipal Electric Utility, the citizens of the City of Maquoketa 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 co-operation and assistance provided by the personnel of Maquoketa Municipal Electric Utility during the course of our audit. Should you have any questions concerning any of the above matters, do not hesitate to contact us.

Maquoketa, Iowa  
March 17, 2008

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
SCHEDULE OF FINDINGS  
December 31, 2007**

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

**REPORTABLE CONDITION**

I-A-07     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-07     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, 2007.

II-B-07     Certified Budget   - Disbursements during the year ended December 31, 2007 did not exceed amounts budgeted.

II-C-07     Questionable Disbursements   - We noted no disbursements that we believe would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-07     Travel Expense   - No disbursements of Utility money for travel expenses of spouses of utility officials or spouses of utility employees were noted.

II-E-07     Business Transactions   - We noted no business transactions between the Utility and Utility officials or employees that appear to represent a conflict of interest.

II-F-07     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-07     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  
December 31, 2007**

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

- II-H-07    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-07    Revenue Notes - During the year ended December 31, 2007, the Utility met 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.
  
- II-J-07    Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.