

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
Maquoketa, Iowa

FINANCIAL STATEMENTS
December 31, 2011

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**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
UTILITY BOARD OF TRUSTEES
December 31, 2011**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Susan Croatt	Chairman	December 2011
Leonard Ditch	Vice-Chairman	December 2015
Caroline Bybee	Secretary	December 2015
Ronald Snell	Board Member	December 2013
Kelvin Sohl	Board Member	December 2013

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 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, 2011, 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, 2011, 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 May 10, 2012, 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.

*Miner, Hibon & Meade
Certified Public Accountants, P.C.*

Maquoketa, Iowa
May 10, 2012

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

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, 2011. 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 15 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 2,834 residential customers, 675 commercial customers, and 19 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 18,534 kW 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 5,000 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 511,537 kWh of power in 2011 or about .0064% of the total power needs of the City.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

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, which became effective on January 1, 2004. This contract ended December 31, 2008. MMEU has a contract with WPPI for wholesale electric power. In 2011, MMEU purchased 78,313,507 kWh or 99.9936% of its power needs from WPPI.

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 \$0.42 per month per meter.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

VI. MMEU BUDGET AND RATES

MMEU has adopted a calendar year budget that reports on a cash basis. WPPI performs a cost of service study to assist the board in rate setting policy. The last rate study by WPPI was in 2008.

The current electric structure went into effect on November 1, 2011. Monthly MMEU rates are as follows:

Residential	
Basic Service \$/Meter	8.00
\$/kW:	
\$/kWh 1 st 600	0.1093
\$/kWh over 600 & Elec Ht	0.1093
SGS Non-Demand/Municipal	
Basic Service \$/Meter:	16.00
\$/kW	
\$/kWh 1 st 4200	0.1053
\$/kWh over 4200 & Elec Ht	0.1053
LGS-50 Demand	
Basic Service \$/Meter:	50.00
\$/kW	8.5000
\$/kWh	0.0824
LGS-2000 Demand	
Basic Service \$/Meter	200.00
\$/kW	7.2500
Distribution Demand	1.2500
\$/kWh	0.0722
Security Lights	
Basic Service \$/Meter:	
50 W HPS	7.00
100 W HPS	8.75
250 W HPS	14.25
400 W HPS	18.25
1000 W HPS	30.50

Sales by type of customer account are as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,834	24,031,220
Commercial SGS	675	24,162,691
Power LGS	19	24,725,690
Security Lights	348	585,580

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

VII. FINANCIAL HIGHLIGHTS

MMEU's total revenues increased from \$10,207,452 in 2010 to \$10,836,987 in 2011, an increase of 6.10%. The increase in MMEU revenues were due largely to increases in residential, commercial usage, and capacity payments.

MMEU's total disbursements decreased from \$10,032,650 in 2010 to \$9,711,465 in 2011, an decrease of \$321,185. Repairs and maintenance were down from the prior year, as were payroll costs at the Power Plant. There were no major improvement projects completed during 2011.

VIII. PROGRAM REVENUES

MMEU generated revenues from the following sources in 2011 and 2010:

	<u>2011</u>	<u>2010</u>
1. Charges for Services:		
Residential	\$ 3,309,650	\$ 3,094,488
Commercial	3,492,818	3,399,509
Power Sales	2,950,908	2,601,779
Capacity payments	721,262	788,479
Security Lights	<u>78,595</u>	<u>74,833</u>
	10,553,233	9,959,088
2. Intergovernmental	-	-
3. Use of Money/Property	75,310	69,784
4. Miscellaneous	<u>208,444</u>	<u>178,580</u>
Total Revenues	<u>\$ 10,836,987</u>	<u>\$10,207,452</u>

IX. PROGRAM EXPENSES

A comparison of MMEU 2011 and 2010 disbursements is as follows:

	<u>2011</u>	<u>2010</u>
General Operating	\$ 9,113,902	\$ 9,434,957
Debt Service	<u>597,563</u>	<u>597,693</u>
Total Expenses	<u>\$ 9,711,465</u>	<u>\$ 10,032,650</u>

The \$321,185 decrease is due to the lower expenditures in the generation business in 2011.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

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 12/31/2011</u>	<u>Balance 12/31/2010</u>
1. General Operating	\$ 5,434,893	\$ 4,312,603
2. Electric Surplus	172,461	171,500
3. Bond Sinking	167,334	167,517
4. Bond Reserve	492,500	492,500
5. Customer Deposits	<u>75,522</u>	<u>73,068</u>
Total	<u>\$ 6,342,710</u>	<u>\$ 5,217,188</u>

The General Operating Fund is divided into eight accounts.

<u>Account</u>	<u>Balance 12/31/2011</u>	<u>Balance 12/31/2010</u>
1. Operating Account	\$ 4,059,700	\$ 3,041,983
2. Insurance Account	68,042	68,469
3. Vehicle Reserve - Distribution	382,190	282,190
4. Vehicle Reserve - Plant	70,956	70,956
5. Power Requirements	50,000	50,000
6. Heavy Equipment	70,723	65,723
7. Sub I Improvement	683,282	683,282
8. Radiator Replacement	<u>50,000</u>	<u>50,000</u>
Total	<u>\$ 5,434,893</u>	<u>\$ 4,312,603</u>

XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES

	<u>2011</u>	<u>2010</u>
Starting Cash Balance - All Funds	\$ 5,217,188	\$ 5,042,386
Total Revenues	10,836,987	10,207,452
Total Expenses	<u>9,711,465</u>	<u>10,032,650</u>
Ending Cash Balance - All Funds	<u>\$ 6,342,710</u>	<u>\$ 5,217,188</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

XII. MMEU OUTSTANDING DEBT

On January 15, 2008, MMEU Board of Trustees issued \$4,925,000 in electric revenue notes, with a net interest cost of 4.089%, to advance refund the 2001 and 2002 notes and to partially finance the \$1,800,000 substation/switchgear project. Underwriting fees and other issuance costs were \$82,100. Proceeds of \$3,266,568 were used to purchase U.S. Government Securities and deposited in an irrevocable trust with an escrow agent. Subsequent debt service payments on the refunded notes were paid from the irrevocable trust. The outstanding balance of the revenue notes as of December 31, 2011 were as follows:

Series 2008 Electric Revenue Improvement & Refunding Bonds \$3,600,000

A comparison of the debt paid and outstanding balances for 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Starting Debt Balance	\$ 3,600,000	\$ 4,045,000
Debt Issued	-	-
Debt Retired	<u>(460,000)</u>	<u>(445,000)</u>
Ending Debt Balance	<u>\$ 3,140,000</u>	<u>\$ 3,600,000</u>

XIII. SIGNIFICANT CAPITAL IMPROVEMENTS

MMEU completed the following capital improvement project in 2011:

- Continued work on distribution lines update (4160 kv upgrade to 12470 kv)

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

XIV. ANALYSIS OF OVERALL FINANCIAL POSITION

MMEU overall financial position increased by \$1,125,522 during 2011.

XV. ANALYSIS OF BALANCES AND TRANSACTIONS

The excess of receipts over disbursements was due to an increase in residential, commercial, and capacity payment receipts and lower repair and maintenance costs in 2011, as compared to 2010.

XVI. ANALYSIS OF VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGET AMOUNTS

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

	<u>Budget</u>	<u>Actual</u>
Disbursements	\$10,540,893	\$9,711,465

The difference resulted from variations in the following items:

1. Power Plant
 - a. Diesel and Natural Gas
 - b. Labor – staff reduction
 - c. No transfers for capital improvements

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

XVII. CURRENT KNOWN FACTS – EFFECT ON FINANCIAL POSITION

There are few known facts, decisions, or conditions that are expected to have some effect on MMEU's financial position. MMEU does not anticipate any significant changes in operating expenses, revenues, or net assets in 2011.

MMEU has signed a long term power purchase agreement with WPPI (Wisconsin Public Power Incorporated). The agreement started January 1, 2009 and remains in effect until December 31, 2037. While power costs can vary in the next year, the variables will be based on load and the economy.

MMEU will continue to make improvements to the power plant and distribution system. Under a ruling by the EPA, MMEU will be required to have catalytic converters installed on their generation engines under the NESHAP Rice Ruling. These improvements will be financed from the General Operating Fund without incurring additional debt.

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, 2011

	Enterprise
Operating receipts:	
Charges for services	\$ 10,553,233
Use of money and property	75,310
Miscellaneous	208,444
Total operating receipts	10,836,987
Operating disbursements:	
General:	
Power purchased	6,431,594
Employee expense	1,217,360
Contract labor	6,233
Repairs and maintenance	209,963
Supplies and services	149,960
Capital outlay	15,478
Sales and use tax	328,037
Gas and oil	80,533
Insurance	325,667
Franchise fee	176,428
Economic development	8,620
Energy conservation	5,409
WPPI community relations	5,310
WPPI conservation grants	22,709
Customer deposits	41,003
Utilities	34,555
Miscellaneous	55,043
Debt service:	
Bond principal payment	460,000
Interest	137,563
Total operating disbursements	9,711,465
Net change in cash balances	1,125,522
Cash balances beginning of year	5,217,188
Cash balances end of year	\$ 6,342,710
Cash basis net assets	
Unrestricted	\$ 6,342,710

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, 2011

	Enterprise Funds			Total
	General Operating	Bond Sinking	Nonmajor	
Operating receipts:				
Charges for services	\$ 10,553,233	\$ -	\$ -	\$ 10,553,233
Use of money and property	74,339	-	971	75,310
Miscellaneous	164,997	-	43,447	208,444
Total operating receipts	<u>10,792,569</u>	<u>-</u>	<u>44,418</u>	<u>10,836,987</u>
Operating disbursements:				
Power purchased	6,431,594	-	-	6,431,594
Employee expense	1,217,360	-	-	1,217,360
Contract labor	6,233	-	-	6,233
Repairs and maintenance	209,963	-	-	209,963
Supplies and services	149,960	-	-	149,960
Capital outlay	15,478	-	-	15,478
Sales and use tax	328,037	-	-	328,037
Gas and oil	80,533	-	-	80,533
Insurance	325,667	-	-	325,667
Franchise fee	176,428	-	-	176,428
Economic development	8,620	-	-	8,620
Energy conservation	5,409	-	-	5,409
WPPI community relations	5,310	-	-	5,310
WPPI conservation grants	22,709	-	-	22,709
Customer deposits	-	-	41,003	41,003
Utilities	34,555	-	-	34,555
Miscellaneous	55,043	-	-	55,043
Debt service:				
Bond principal payment	-	460,000	-	460,000
Interest	-	137,563	-	137,563
Total operating disbursements	<u>9,072,899</u>	<u>597,563</u>	<u>41,003</u>	<u>9,711,465</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,719,670</u>	<u>(597,563)</u>	<u>3,415</u>	<u>1,125,522</u>
Other financing sources (uses):				
Operating transfers in	-	597,380	-	597,380
Operating transfers out	(597,380)	-	-	(597,380)
Total other financing sources (uses)	<u>(597,380)</u>	<u>597,380</u>	<u>-</u>	<u>-</u>
Net change in cash balances	1,122,290	(183)	3,415	1,125,522
Cash balance beginning of year	4,312,603	167,517	737,068	5,217,188
Cash balance end of year	<u>\$ 5,434,893</u>	<u>\$ 167,334</u>	<u>\$ 740,483</u>	<u>\$ 6,342,710</u>
Cash basis net assets				
Unrestricted	<u>\$ 5,434,893</u>	<u>\$ 167,334</u>	<u>\$ 740,483</u>	<u>\$ 6,342,710</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, 2011**

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, 2011.

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, 2011

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 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, 2011, 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.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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>
2012	\$ 475,000	\$ 121,463	\$ 596,463
2013	495,000	104,363	599,363
2014	515,000	86,048	601,048
2015	530,000	66,220	596,220
2016	555,000	45,285	600,285
Thereafter	<u>570,000</u>	<u>23,085</u>	<u>593,085</u>
	<u>\$3,140,000</u>	<u>\$ 446,464</u>	<u>\$3,586,464</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 Surplus Fund into which there is to be set apart and paid all of the Net Revenues remaining after making the required payments into the Sinking Fund.
- (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, 2011</u>
Vacation	\$ 63,810
Sick leave	250,581
Compensatory time	766
	<u>\$ 315,157</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 5 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended December 31, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Bond Sinking	General Operating	\$ 597,380

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

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 4.50% of their annual covered salary through June 30, 2011, and 5.38% of their annual covered salary through December 31, 2011; the Utility is required to contribute 6.95% and 8.07% of the covered payroll for these periods, respectively. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2011, 2010, and 2009, were \$72,431, \$70,671, and \$66,293, 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.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 8 – 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, 2011, the utility received the following amounts from the City:

Electric service	\$ 389,318
Labor	24,211
	<u>\$ 413,529</u>

NOTE 9 – 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, 2011, the Utility produced revenues sufficient to meet this provision.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Utility was named as a defendant in a civil lawsuit by Central Iowa Power Cooperative. The suit is seek compensation for prior delivery of energy to the Utility. The Utility is one of many Utility providers that used these delivery systems. The Utility feels they have complied with all contract requirements on the contracts and are not liable for any other costs under the contract.

NOTE 11 – SUBSEQUENT EVENTS

The Utility has evaluated events and transactions occurring after December 31, 2011 for potential items requiring to be recognized or disclosed in the financial statements. Subsequent events have been evaluated through May 10, 2012, the date of which the financial statements were available to be issued.

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, 2011

	Actual	Budgeted Amounts		Variance Final to Actual Favorable (Unfavorable)
		Original Budget	Final Budget	
Receipts:				
Use of money and property	\$ 75,310	\$ 45,035	\$ 45,035	\$ 30,275
Charges for services	10,553,233	9,358,156	9,358,156	1,195,077
Miscellaneous	208,444	1,113,911	1,113,911	(905,467)
Total receipts	<u>10,836,987</u>	<u>10,517,102</u>	<u>10,517,102</u>	<u>319,885</u>
Disbursements	<u>9,711,465</u>	<u>10,540,893</u>	<u>10,540,893</u>	<u>829,428</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,125,522</u>	<u>(23,791)</u>	<u>(23,791)</u>	<u>1,149,313</u>
Other financing sources (uses):				
Operating transfers in	597,380	831,380	831,380	(234,000)
Operating transfers out	<u>(597,380)</u>	<u>(831,380)</u>	<u>(831,380)</u>	<u>234,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	1,125,522	(23,791)	(23,791)	1,149,313
Cash balance beginning of year	<u>5,217,188</u>	<u>5,311,632</u>	<u>5,311,632</u>	<u>(94,444)</u>
Cash balance end of year	<u>\$ 6,342,710</u>	<u>\$ 5,287,841</u>	<u>\$ 5,287,841</u>	<u>\$ 1,054,869</u>
Cash basis net assets Unrestricted	<u>\$ 6,342,710</u>	<u>\$ 5,287,841</u>	<u>\$ 5,287,841</u>	<u>\$ 1,054,869</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, 2011

	Electric Surplus	Bond Reserve	Customer Deposits	Total
Operating receipts:				
Use of money and property	\$ 961	-	10	\$ 971
Miscellaneous	-	-	43,447	43,447
Total operating receipts	961	-	43,457	44,418
Operating disbursements:				
Customer deposits	-	-	41,003	41,003
Bond principal payment	-	-	-	-
WPPI deposit	-	-	-	-
Total disbursements	-	-	41,003	41,003
Excess of receipts over disbursements	961	-	2,454	3,415
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in cash balances	961	-	2,454	3,415
Cash balance beginning of year	171,500	492,500	73,068	737,068
Cash balance end of year	\$ 172,461	\$ 492,500	\$ 75,522	\$ 740,483
Cash basis net assets Unrestricted	\$ 172,461	\$ 492,500	\$ 75,522	\$ 740,483

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
GENERAL OPERATING FUND
As Of And For The Year Ended December 31, 2011

	<u>Operating Account</u>	<u>Insurance Account</u>	<u>Vehicle Reserve- Distribution</u>
Operating receipts:			
Charges for services:			
Residential	\$ 3,309,650	\$ -	\$ -
Commercial	3,492,818	-	-
Security lights	78,595	-	-
Capacity payments	721,262	-	-
Power sales	2,950,908	-	-
	<u>10,553,233</u>	<u>-</u>	<u>-</u>
Use of money and property:			
Interest on investments	49,871	52	-
Miscellaneous	23,820	596	-
	<u>73,691</u>	<u>648</u>	<u>-</u>
Miscellaneous:			
Refunds	7,850	-	-
Miscellaneous	157,147	-	-
	<u>164,997</u>	<u>-</u>	<u>-</u>
Total operating receipts	<u>10,791,921</u>	<u>648</u>	<u>-</u>
Operating disbursements:			
Administration	1,356,165	1,075	-
Power plant	6,903,366	-	-
Distribution	812,293	-	-
Total operating disbursements	<u>9,071,824</u>	<u>1,075</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,720,097</u>	<u>(427)</u>	<u>-</u>
Other financing sources (uses):			
Transfers in (out):			
Operating account	-	-	100,000
Vehicle reserve plant	(100,000)	-	-
Heavy equipment account	(5,000)	-	-
Radiator replacement account	-	-	-
Bond sinking account	(597,380)	-	-
Total other financing sources (uses)	<u>(702,380)</u>	<u>-</u>	<u>100,000</u>
Net change in cash balances	1,017,717	(427)	100,000
Cash balance, beginning of year	3,041,983	68,469	282,190
Cash balance end of year	<u>\$ 4,059,700</u>	<u>\$ 68,042</u>	<u>\$ 382,190</u>

Schedule 2

<u>Vehicle Reserve-Plant</u>	<u>Power Requirements Account</u>	<u>Heavy Equipment Account</u>	<u>Sub I Improvement Account</u>	<u>Radiator Replacement Account</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,309,650
-	-	-	-	-	3,492,818
-	-	-	-	-	78,595
-	-	-	-	-	721,262
-	-	-	-	-	2,950,908
-	-	-	-	-	10,553,233
-	-	-	-	-	49,923
-	-	-	-	-	24,416
-	-	-	-	-	74,339
-	-	-	-	-	7,850
-	-	-	-	-	157,147
-	-	-	-	-	164,997
-	-	-	-	-	10,792,569
-	-	-	-	-	1,357,240
-	-	-	-	-	6,903,366
-	-	-	-	-	812,293
-	-	-	-	-	9,072,899
-	-	-	-	-	1,719,670
-	-	5,000	-	-	105,000
-	-	-	-	-	(100,000)
-	-	-	-	-	(5,000)
-	-	-	-	-	-
-	-	-	-	-	(597,380)
-	-	5,000	-	-	(597,380)
-	-	5,000	-	-	1,122,290
70,956	50,000	65,723	683,282	50,000	4,312,603
\$ 70,956	\$ 50,000	\$ 70,723	\$ 683,282	\$ 50,000	\$ 5,434,893

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2011**

Administration:

Salaries	\$ 281,228
FICA and IPERS	40,592
Insurance	282,269
Sales and use tax	328,037
Franchise fee	176,428
Materials and repairs	18,275
Postage	15,839
Meeting expense	4,789
Dues	30,645
Office supplies	13,652
Professional fees	92,706
Utilities	8,669
Advertising	5,657
City Hall shared services	6,319
Energy conservation	5,409
WPPI community relations	5,310
WPPI conservation grants	22,709
Economic development	8,620
Miscellaneous	9,012
Total administration	1,356,165

Power Plant:

Salaries	281,810
FICA and IPERS	38,659
Purchased power	6,431,594
Insurance	42,323
Materials and repairs	28,772
Contract item replacement	1,234
Supplies	9,370
Utilities	8,254
Natural gas	29,622
Fuel oil	23,881
Lubricants	7,847
Total power plant	6,903,366

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2011

Distribution:	
Salaries	\$ 500,451
FICA and IPERS	74,620
Contract labor	6,233
Materials and repairs	69,662
Meeting expense	3,706
Supplies	12,074
Utilities	17,632
Gas and oil	19,183
Tools	4,590
Conductor	9,431
Poles	15,478
Transformers	65,741
Meters	13,492
Total distribution	<u>812,293</u>
Total disbursements	<u>\$ 9,071,824</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
 SCHEDULE OF INDEBTEDNESS
 Year Ended December 31, 2011

Obligation	Date of Issuance	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Electric revenue notes	January 15, 2008	3.4 - 4.05 %	\$ 4,925,000	\$ 3,600,000	\$ -	\$ 460,000	\$ 3,140,000	\$ 137,563	\$ -

**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, 2011 which collectively comprise the Utility's basic financial statements listed on the table of contents and have issued our report thereon dated May 10, 2012. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, 2011, 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 cooperation 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, please do not hesitate to contact us:

Miner, Gibson & Meade
Certified Public Accountants, PC

Maquoketa, Iowa
May 10, 2012

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
December 31, 2011**

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS

I-A-11 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.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
December 31, 2011**

Part II: Other Findings Related to Statutory Reporting:

- II-A-11 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, 2011.
- II-B-11 Certified Budget - Disbursements during the year ended December 31, 2011 did not exceed amounts budgeted.
- II-C-11 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-11 Travel Expense - No disbursements of Utility money for travel expenses of spouses of utility officials or spouses of utility employees were noted.
- II-E-11 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-11 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-11 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-11 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-11 Revenue Notes - During the year ended December 31, 2011, 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-11 Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.