

**INDEPENDENCE LIGHT AND POWER,  
TELECOMMUNICATIONS**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**DECEMBER 31, 2013 AND 2012**

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INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS  
 Officials

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Meyer	Chairperson	December 2013
Cyndi Bergeson	Trustee	December 2015
Jerry Stelter	Trustee	December 2015
Leon Bachman	Secretary-Treasurer	December 2017
Linda Dugan	Trustee	January 2018

Utility Officials

Charles E. Ward, Jr.	General Manager	indefinite
Kevin M Sidles	Line Superintendent	indefinite
Linda J Kress	Office Manager	indefinite
Marty Diesburg	Telecommunications Superintendent	indefinite

City Officials

Carl Scharff	Mayor
Jeanne Hermsen	Council Member
Dennis Vaughn	Council Member
Richard Engen	Council Member
Dustin Dallenbach	Council Member
Bonita Davis	Council Member
Jon Holland	Council Member
Robert Hill	Council Member
Barbara Rundle	City Clerk
Steve Diers	City Manager
Carter Stevens	City Attorney

**RFSW** Ridihalgh Fuelling  
Snitker Weber & Co.  
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.  
Gene L. Fuelling, C.P.A.  
Donald A. Snitker, C.P.A.  
Jeremy P. Lockard, C.P.A.

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Independent Auditor's Report

To the Board of Trustees  
Independence Light and Power, Telecommunications  
Independence, Iowa 50644

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Independence Light and Power, Telecommunications (a municipal utility), a component unit of the City of Independence, Iowa, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Independence Light and Power, Telecommunications as of December 31, 2013 and 2012, and the respective changes in

financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

#### Other Matters

##### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, and the Budgetary Comparison Information on pages 6 through 17 and 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

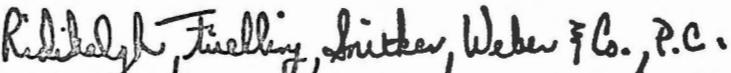
##### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Light and Power, Telecommunications' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended December 31, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2014 on our consideration of Independence Light and Power, Telecommunications' 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 in considering Independence Light and Power, Telecommunications' internal control over financial reporting and compliance.

  
RIDIHALGH, FUELLING, SNITKER, WEBER, & CO. P.C., C.P.A.'S

December 1, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Independence Light and Power, Telecommunications (the Utility) provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2013. The Independence Light and Power, Telecommunications provides electrical, cable, internet, and telephone services to the citizens of the City of Independence (the City) and is a component unit of the City. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- Revenues of the Utility for 2013 were \$11,481,131. This is a decrease over revenues in 2012 of 4.18%.
- Disbursements for 2013 totaled \$12,179,815. This is an increase of approximately 14.46% from 2012.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis – This introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Basic Financial Statements – These consist of the Statement of Net Position, Statement of Revenues and Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements. The previous mentioned financial statements provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplemental Information – This provides additional information about the Utility's financial activities in addition to the basic financial statements.

### **BASIS OF ACCOUNTING**

The Utility maintains its financial records on the accrual basis of accounting which is in conformity with U.S. generally accepted accounting principles. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

### **FINANCIAL ANALYSIS OF THE UTILITY**

Net Position may serve over time as a useful indicator of financial position. The Utility's Net Position, including any prior period adjustment, decreased by \$698,684 from 2012 to 2013.

### Assets, Liabilities, and Net Assets

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets	\$ 4,997,913	4,177,046
Capital Assets:		
Capital Assets	20,925,624	25,756,587
Less: Accumulated depreciation	<u>(12,713,184)</u>	<u>(15,562,735)</u>
Total Capital Assets	8,212,440	10,193,852
Board Designated Funds	4,362,260	4,565,882
Other Assets	<u>952,616</u>	<u>1,074,820</u>
Total Assets	<u>\$ 18,525,229</u>	<u>\$ 20,011,600</u>
Liabilities		
Current Liabilities	\$ 1,919,298	\$ 1,920,456
Other Liabilities:		
Accrued retirement insurance	390,792	455,221
Note Payable – USDA Revolving Loan Fund	300,000	300,000
Note Payable – USDA RED Loan Fund	583,892	654,668
Less: Current portion USDA RED Loan	( 70,776)	( 53,082)
Electric revenue project note payable	2,532,135	3,151,839
Less: Current portion Electric Rev. Note	<u>( 524,130)</u>	<u>( 510,204)</u>
Total Other Liabilities	<u>3,211,913</u>	<u>3,998,442</u>
Total Liabilities	5,131,211	5,918,898
Net Assets	<u>13,394,018</u>	<u>14,092,702</u>
Total Liabilities and Net Assets	<u>\$ 18,525,229</u>	<u>\$ 20,011,600</u>

### Revenues, Expenses and Changes in Net Assets

	<u>2013</u>	<u>2012</u>
Revenues:		
Sales to Customers	\$11,303,939	\$11,285,494
Miscellaneous Operating Revenue	69,804	229,291
Interest Income	48,271	53,047
Miscellaneous Revenue	59,117	393,354
Gain on Disposal of Assets	<u>-</u>	<u>-</u>
Total Revenue	<u>11,481,131</u>	<u>11,961,186</u>
Expenses:		
Generation Expenses	259,597	437,625
Purchased power & transmission expenses	5,681,206	5,379,531
Distribution Expenses	473,347	448,364
Customer Accounts Expense	120,586	132,909
Administration and General Expense	1,250,048	828,156
Cable and Internet Expenses	1,652,067	2,052,269
Depreciation and Amortization	960,578	951,958
Benefits to Community and City	285,041	304,501

Interest Expense	77,939	93,834
Loss on Disposal of Assets	<u>1,419,406</u>	<u>11,784</u>
Total Expenses	<u>12,179,815</u>	<u>10,640,931</u>
Changes in Net Position	( 698,684)	1,320,255
Net Position at Beginning of Year	<u>14,092,702</u>	<u>12,772,447</u>
<i>Prior period adjustment</i>	-	-
<i>Net Position at End of Year</i>	<u>\$ 13,394,018</u>	<u>\$ 14,092,702</u>

### **BUDGETARY HIGHLIGHTS**

The Utility prepared and adopted the annual budget on December 7, 2012, which designated the amounts necessary for the improvement and maintenance of the Utility. The Utility did exceed its budgeted expenditures for the year ended December 31, 2013.

### **DEBT ADMINISTRATION**

At December 31, 2013, the Utility had long-term debt in the amount of \$2,532,135. During 2013, the Utility repaid \$619,704 of long-term debt.

### **BACKGROUND OF INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS**

In 1893, the citizens of Independence voted by a 572 majority to build a municipal light plant. This building was located where Veterans Park is today. The flood of 1947 caused damage to the plant so they decided to move to a better location. In 1948, construction began on a new building at the present site. At that time the Mayor and City Council governed the Light Plant. In 1961 the City voted to have the Light Plant governed by a board of trustees.

During the construction of this building, two new Superior 1000kw generators were installed. These generators are still in use today. After these generators became operational they moved two Worthington generators from the old plant. These units have since been removed to make room for new Caterpillar generators.

As the City grew the demand for electricity also grew, so additional generation had to be added. In 1957, a twenty-foot addition was added to the west side of the building to make room for the installation of a 2500kw Worthington generator. In 1964, another addition was added to the west allowing space for two additional generators. At this time a 3200kw Worthington generator was installed. In 1973, a 6250kw Worthington generator was installed and a new Control Room was added to the south side of the building.

In 1975, the interconnection with Interstate Power Company was installed. This meant that the plant went to a standby status and power was purchased from Interstate Power Company. Power was generated during times of high usage and during emergencies. Presently we are still in a standby status and from May 1996 until May 2006, we have been purchasing power from Dairyland Power Company. On April 20, 2006 a contract was signed with Wisconsin Energy, (WPPI) to purchase power beginning May 1, 2006 for a period of 30 years.

In October of 1979 the Line Shop moved to their present location. In 1987, we began to upgrade the electrical distribution system from 2400 volts to 12,470 volts. This upgrade was completed in January of 2002. In order to better serve our customers, a drive-thru pay window was installed in 1992 and the billing functions were moved from City Hall to the plant.

In 1995, two 1860kw Caterpillar generators were installed in place of the 1935 generator. In March of 1999, the 1939 generator was also removed to make room for additional Caterpillar generators. In May of 2000 three 1860kw Caterpillar generators came on line. In 2007 the two 1949 Superior generators were retired and currently the total generating capacity of the plant is 21,250kw.

In November of 1997 by a majority vote, the citizens of Independence approved the formation of a telecommunications company. A new administration building was built across the street from the plant and in May of 2000 the office and management personnel moved in. The vacated office area at the plant was remodeled for the new telecommunications equipment. Cable TV became operational in December of 2000 and internet on May of 2001. In 2006, telephone service, or Voice Over Internet Protocol (VOIP) was added as an additional service.

In June of 2003 work began on the site of the west substation. This substation was installed to handle the continued growth west of the river. It will also be used to serve the entire town when east substation needs to be taken out of service. We are continuing to stay abreast with our customers' needs and keeping a watchful eye to the future. Our goal is the same as our founders, to deliver low cost dependable power to all citizens well into the future.

In May of 2013 Generation Capacity Payments were no longer available to the Utility and costs to bring the generators up to the new emission standards were estimated to be \$900,000.00. Without the ability to retain generation capacity payments and the high costs to update the generators to the new emissions rules standards, the Utility Board voted to solicit bids and sell the generators and associated equipment. In August of 2013 the West Substation located on Iowa Ave SW was energized providing increased reliability to electric customers. Additionally, the utility has made plans with ITC to build a new Transmission line to the West Substation by July 2015.

#### **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kevin Sidles, General Manager, P.O. Box 754, Independence, IA 50644.

Independence, Iowa  
ANALYSIS OF KILOWATT HOURS AND BILLINGS  
For the Year Ended December 31, 2013  
(unaudited)

Type of Service:	KWH Billed	Amount Billed	Revenue in cents/KWH	% KWH to Total	% Revenues to Total	Number of Accts
Residential Service	21,112,875	3,393,847	16.07	30.96%	40.98%	2,627
Security Lights	204,576	31,504	15.40	0.30%	0.38%	
Commercial Service	12,776,558	1,716,517	13.43	18.74%	20.72%	357
Demand Power	30,829,671	2,798,720	9.08	45.22%	33.79%	34
<b>Total to Customers</b>	<b>64,923,680</b>	<b>7,940,588</b>	<b>12.23</b>	<b>95.22%</b>	<b>95.87%</b>	<b>3,018</b>
<b>Municipal Sales:</b>						
Street Lighting	635,220	80,246	12.63	0.93%	0.97%	1
City Bldgs, Parks, Water Pumping	945,641	128,615	13.60	1.39%	1.55%	22
City Demand Power	1,495,840	132,904	8.88	2.19%	1.60%	2
Plant Lights, Office & Line Shop	183,575	0	0.00	0.27%	0.00%	
<b>Total Municipal</b>	<b>3,260,276</b>	<b>341,765</b>	<b>10.48</b>	<b>4.78%</b>	<b>4.13%</b>	<b>25</b>
Power Cost Adjustment	n/a		0.00	n/a	0.00%	
<b>TOTALS</b>	<b>68,183,956</b>	<b>8,282,353</b>	<b>12.15</b>	<b>100.00%</b>	<b>100.00%</b>	<b>3,043</b>

Analysis of Energy Generated:

Kilowatt Hours Generated	1,635
Less KWH Consumed by Station	317,435
KWH to Distribution Feeders	-315,800
KWH Purchased	72,187,808
Total	71,872,008
Kilowatt Hours Billed and Metered	68,183,956
Line Loss in Kilowatts	3,688,052
Line Loss as a Percent to Total	5.13%

Revenue by Category: Power Cost Adjustment Separate  
2013

	January	February	March	April	May	June	July	August	September	October	November	December	Total	Total for acct
Residential	1,912,709	1,832,709	1,953,005	1,568,388	1,345,253	1,447,663	1,816,437	2,286,151	2,208,022	1,733,102	1,409,943	1,577,769	21,091,151	21,112,875
Power Cost Adjustment							5,832	15,892					21,724	
Commercial	1,002,607	1,006,709	1,061,917	967,048	974,104	1,050,608	1,144,122	1,361,391	1,229,365	1,005,494	948,559	1,011,502	12,763,426	12,776,558
Power Cost Adjustment							3,673	9,459					13,132	
Industrial	2,382,680	2,482,400	2,147,240	2,205,840	2,154,200	2,315,900	2,745,765	2,813,952	2,989,488	2,800,220	2,999,120	2,764,500	30,801,305	30,829,671
Power Cost Adjustment							8,815	19,551					28,366	
Security Lites	16,782	17,004	17,094	17,097	17,049	17,051	17,049	17,071	17,028	17,067	16,820	17,464	204,576	204,576
Street/HWY	52,935	52,935	52,935	52,935	52,935	52,935	52,935	52,935	52,935	52,935	52,935	52,935	635,220	635,220
City Comm	75,934	72,463	60,442	62,108	64,915	78,191	107,720	97,979	81,995	66,923	79,488	96,456	944,614	945,641
Power Cost Adjustment							346	681					1,027	
City Demand	122,240	123,520	117,120	132,560	128,240	145,440	143,619	122,350	120,960	106,160	113,840	118,480	1,494,529	1,495,840
Power Cost Adjustment							461	850					1,311	
	5,565,887	5,587,740	5,409,753	5,005,976	4,736,696	5,107,788	6,046,774	6,798,262	6,699,793	5,781,901	5,620,705	5,639,106	68,000,381	68,000,381

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
ENERGY AND REVENUE ACCOUNTING REPORT  
For Years Ended December 31, 2013, 2012, 2011, 2010, 2009  
(unaudited)

	2013		2012		2011		2010		2009	
	KWH	%								
1. Total Gross Energy (all sources; % of previous year)	72,189,443	109.2%	68,648,900	103.4%	66,133,479	99.6%	66,370,141	109.8%	60,462,663	96.0%
2. Purchased Energy (% of line 1)	72,187,808	100.0%	67,913,178	98.9%	65,877,999	99.6%	66,126,335	99.6%	60,227,746	99.6%
3. Total Gross Energy Generated (line 1 - line 2)	1,635	100.0%	735,722	100.0%	255,480	100.0%	243,806	100.0%	234,917	100.0%
4. Energy Consumed by Station (% of line 3)	317,435	19415.0%	428,779	58.3%	434,353	170.0%	439,630	180.3%	503,514	214.3%
5. Total Net Energy Generated	-315,800	-19315.0%	306,943	41.7%	-178,873	-70.0%	-195,824	-80.3%	-268,597	-114.3%
6. Total Net Energy Outgoing Feeders	71,872,008	100.0%	68,220,121	100.0%	65,699,126	100.0%	65,930,511	100.0%	59,959,149	100.0%
7. Net Distributed Energy (% of line 6)	68,183,956	94.9%	64,888,234	95.1%	62,915,537	95.8%	62,761,123	95.2%	56,679,526	94.5%
8. Energy Lost in Distribution System (% of line 6)	3,688,052	5.13%	3,331,887	4.88%	2,783,589	4.24%	3,169,388	4.81%	3,279,623	5.47%
<b>ENERGY CONSUMED BY EACH SERVICE AND PERCENT CHANGE IN CONSUMPTION:</b>	<b>KWH</b>	<b>% Change</b>								
Residential Service	21,112,875	-1.3%	21,063,092	-2.6%	21,394,861	-1.1%	21,622,497	7.7%	20,079,480	-7.9%
Commercial Service	12,776,558	2.1%	12,459,250	2.2%	12,508,862	2.6%	12,194,628	18.9%	10,259,191	-4.9%
Demand Power	30,829,671	20.1%	28,096,400	9.9%	25,662,280	0.3%	25,575,480	11.4%	22,852,060	-1.3%
Security Lights	204,576	16.7%	188,177	9.3%	175,372	1.9%	172,147	-2.2%	175,961	-6.1%
City Bldgs, Parks, Water Pump, Traffic Signals	945,641	7.9%	892,210	7.5%	876,386	5.6%	830,254	-6.2%	884,692	4.1%
City Demand Accts: WWTP, Pump Station, Shop	1,495,840	7.3%	1,373,280	-5.8%	1,394,480	-4.3%	1,457,200	2.1%	1,427,920	-0.5%
Street Lights	635,220	-11.4%	636,760	-11.2%	716,988	0.0%	716,988	0.0%	716,988	0.1%
Plant Lights, Office & Line Shop	183,575	-1.5%	179,075	-6.7%	186,308	-2.9%	191,929	4.7%	183,234	-1.5%
<b>TOTAL</b>	<b>68,183,956</b>	<b>8.4%</b>	<b>64,888,234</b>	<b>3.4%</b>	<b>62,915,537</b>	<b>0.2%</b>	<b>62,761,123</b>	<b>10.7%</b>	<b>56,679,526</b>	<b>-4.3%</b>
<b>ELECTRIC SALES INCLUDING AVERAGE UNIT REVENUE PER KWH:</b>	<b>Billings</b>	<b>Per Unit Revenue In Cents</b>								
Residential Service	3,393,847	16.07	3,597,406	17.08	3,629,986	16.97	3,456,833	15.99	3,248,101	16.18
Commercial Service	1,716,517	13.43	1,663,937	13.36	1,658,001	13.25	1,530,042	12.55	1,303,940	12.71
Demand Power	2,798,720	9.08	2,516,567	8.96	2,329,442	9.08	2,176,966	8.51	2,009,493	8.76
Security Lights	31,504	15.40	30,101	16.00	28,890	16.47	28,607	16.62	28,728	16.33
City Bldgs, Parks, Water Pump, Traffic Signals	128,615	13.60	120,345	13.49	116,298	13.27	104,212	12.55	111,684	12.56
City Demand Accts: WWTP, Pump Station, Shop	132,904	8.88	117,889	8.58	120,311	8.63	120,936	8.30	117,766	8.25
Street Lights	80,246	12.63	79,622	12.50	90,533	12.63	85,896	11.98	85,896	11.98
<b>TOTAL</b>	<b>8,282,353</b>	<b>12.15</b>	<b>8,125,868</b>	<b>12.52</b>	<b>7,973,461</b>	<b>12.67</b>	<b>7,503,492</b>	<b>11.96</b>	<b>6,905,008</b>	<b>12.18</b>

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
UTILITY STATISTICS AND OPERATING INFORMATION  
For Years Ended December 31, 2013, 2012, 2011, 2010, 2009  
(unaudited)

				2013		2012		2011		2010		2009	
Genr	Unit		KW	KWH		KWH		KWH		KWH		KWH	
No.	Year	Fuel	Capacity	Generated	Generated	Generated	Generated	Generated	Generated	Generated	Generated	Generated	Generated
	1	1949	out of service 4/07	0	0	0	0	0	0	0	0	0	0
Installed 2000	1A	2000	Oil	521	101,916	44,776	23,652	25,365					
	2	1949	out of service 4/07	0	0	0	0	0					
	3A	1996	Oil	1,860	95,000	45,000	24,000	22,000					
	3B	1996	Oil	1,860	95,000	45,000	23,000	22,000					
Installed 2000	4A	2000	Oil	1,860	558	102,611	44,290	23,511	26,116				
Installed 2000	4B	2000	Oil	1,860	556	102,195	46,414	23,643	25,436				
	5	1957	Dual	2,500	0	88,000	6,000	28,000	22,000				
	6	1964	Dual	3,200	0	23,000	8,000	30,000	30,000				
	7	1973	Dual	6,250	0	133,000	16,000	68,000	62,000				
TOTAL CAPACITY & KWH GENERATED				21,250	1,635	740,722	255,480	243,806	234,917				
PURCHASED KILOWATT HOURS					72,187,808	67,913,178	65,877,999	66,126,335	60,227,746				
TOTAL KWH					72,189,443	68,653,900	66,133,479	66,370,141	60,462,663				
				Hours	Operating	Hours	Operating	Hours	Operating	Hours	Operating	Hours	Operating
				Operated	Capacity	Operated	Capacity	Operated	Capacity	Operated	Capacity	Operated	Capacity
	1		Oil	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
	1A		Oil	0.5	56%	61.75	89%	27	89%	14.5	88%	15.5	88%
	2		Oil	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
	3A		Oil	0.5	0%	57.75	88%	27	90%	15	86%	13.5	88%
	3B		Oil	0.5	0%	57.75	88%	27	90%	14.5	85%	13.5	88%
	4A		Oil	0.5	60%	62.25	89%	27	88%	14.5	87%	15.5	91%
	4B		Oil	0.5	60%	62.25	88%	28	89%	14.5	88%	15.5	88%
	5		Oil & Gas	0	#DIV/0!	49.75	71%	3.5	69%	16.25	69%	11.75	75%
	6		Oil & Gas	0	#DIV/0!	9	80%	3.5	71%	12.25	77%	11.75	80%
	7		Oil & Gas	0	#DIV/0!	27	79%	3.5	73%	12.5	87%	11.75	84%
TOTAL PLANT FUEL CONSUMPTION FOR ENERGY GENERATION ONLY				Oil	Fuel Consumed	Oil	Fuel Consumed						
				Gas	256 gal	Gas	55,628 gal	Gas	19,217 gal	Gas	18,854 gal	Gas	17,028 gal
TOTAL & UNIT COST FOR ENERGY GENERATION ONLY				Oil	Total Fuel Cost	Oil	Total Fuel Cost						
				Gas	868	Gas	142,963	Gas	39,271	Gas	39,949	Gas	36,749
					Unit Cost		Unit Cost		Unit Cost		Unit Cost		Unit Cost
					3.389		2.570		2.044		2.119		2.158
TOTAL UNIT OPERATING COST (omit interest, depreciation & taxes)				Total Cost	Cents/KWH	Total Cost	Cents/KWH						
Total Fuel Cost for Energy Generated				5,145	314.67	137,058	18.50	39,650	15.52	40,189	16.48	36,876	15.70
Purchased Power Cost				5,614,801	7.78	5,373,941	7.91	5,175,095	7.86	5,123,414	7.75	4,323,536	7.18
Generation & Purchased Cost to Feeders				5,928,874	8.25	5,811,511	8.52	5,579,314	8.49	5,523,392	8.38	4,726,111	7.88
Generation & Purchased Cost to Consumers				5,928,874	8.70	5,811,511	8.96	5,579,314	8.87	5,523,392	8.80	4,726,111	8.34
Distribution Cost to Consumers				547,844	0.80	456,393	0.70	371,405	0.59	405,198	0.65	403,005	0.71
Accounting & Collection Expenses to Consumers				120,639	0.18	132,909	0.20	125,659	0.20	127,890	0.20	111,143	0.20
Office Admin. & General Expenses to Consumers				917,682	1.35	789,468	1.22	894,502	1.42	1,118,476	1.78	1,092,465	1.93
Total Delivered Cost to Consumers				7,515,038	11.02	7,190,281	11.08	6,970,879	11.08	7,174,956	11.43	6,332,724	11.17
MAXIMUM DEMAND ON PLANT (MOMENTARY)				15,601 KW		15,233 KW		15,266 KW		13,930 KW		12,720 KW	
Maximum Momentary Demand				08/30/13 4:00 PM		07/06/12 4:00 PM		07/19/11 5:00 PM		07/14/10 6:00 PM		2/3/09 3:35 PM	
Month, Day & Hour of Occurrence													

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
(unaudited)

**Electric Rate Schedule**

Effective April 1, 2013

Residential:	Service Charge	\$13.50
	All kWh	\$0.13482
Commercial:	Service Charge	\$20.00
	All kWh	\$0.12595
Industrial:	Service Charge	\$120.00
	Demand Charge	\$10.60 per KW
	All kWh	\$0.0630

An energy cost adjustment is made monthly to the above rates based on the utility's kWh sales and power costs.

**Security Lighting Monthly Rental Fees**

Effective January 1, 2009

100 Watt High Pressure Sodium	10.00
250 Watt High Pressure Sodium	15.00
400 Watt High Pressure Sodium	18.50
400 Watt Metal Halide	15.00
Metal Arch	10.00

**INDEPENDENCE LIGHT AND POWER**  
Independence, Iowa

**MONTHLY & YEARLY PEAK LOAD IN KILOWATTS**  
For the Year Ended December 31, 2013  
(unaudited)

Date	KW	Time	Day
January 21	10,283	7:00 PM	Monday
February 19	10,126	8:00 PM	Tuesday
March 7	9,573	9:00 AM	Thursday
April 1	9,322	11:00 AM	Monday
May 30	10,274	1:00 PM	Thursday
June 27	13,177	5:00 PM	Thursday
July 18	15,291	6:00 PM	Thursday
August 30	15,601	4:00 PM	Friday
September 9	15,039	5:00 PM	Monday
October 3	10,501	2:00 PM	Thursday
November 26	10,612	6:00 PM	Tuesday
December 23	11,521	6:00 PM	Monday

**2013 Peak for the Year**

August 30	15,601	4:00 PM
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**Comparison**

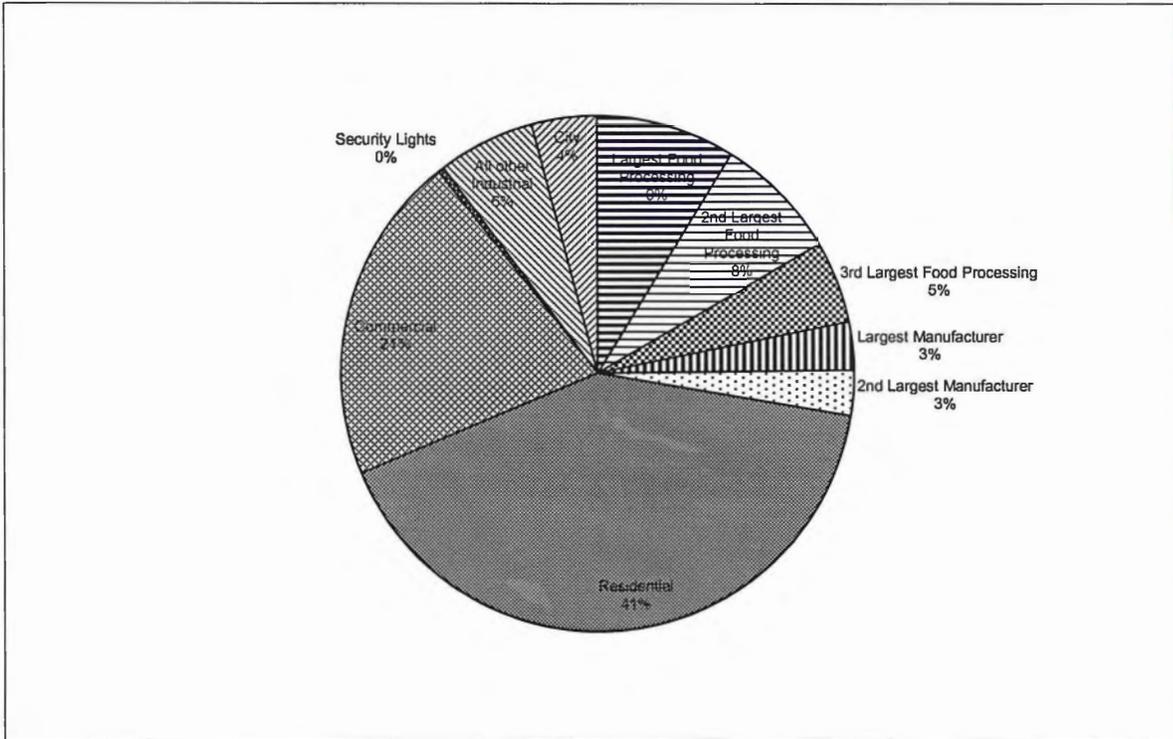
2012 Peak	15,233
2011 Peak	15,266
2010 Peak	13,930
2009 Peak	12,720
2008 Peak	12,410
2007 Peak	13,398
2006 Peak	15,030
2005 Peak	16,580
2004 Peak	15,500
2003 Peak	17,000
2002 Peak	15,500
2001 Peak	16,310
2000 Peak	16,030
1999 Peak	16,310
1998 Peak	13,836
1997 Peak	13,950
1996 Peak	14,000
1995 Peak	15,800
1994 Peak	12,500
1993 Peak	12,600
1992 Peak	10,500

INDEPENDENCE LIGHT & POWER  
Independence, Iowa

TEN LARGEST INDUSTRIAL CUSTOMERS  
December 31, 2013  
(unaudited)

	Customer	KWh Metered At Industrial Rate	Revenue	% of Total Revenue
Ranking:				
1	Food Processing	8,399,480	\$725,393	8.8%
2	Food Processing	7,322,680	\$649,736	7.8%
3	Food Processing	4,457,640	\$428,363	5.2%
4	Manufacturing	2,683,760	\$252,123	3.0%
5	Manufacturing	2,680,000	\$235,594	2.8%
6	Government	1,495,840	\$132,904	1.6%
7	Education	1,295,431	\$140,662	1.7%
8	Health Care	1,292,520	\$114,813	1.4%
9	Retail	704,960	\$64,658	0.8%
10	Retail	366,600	\$35,255	0.4%
	Total of Ten Largest	30,698,911	\$2,779,501	33.6%

**INDEPENDENCE LIGHT & POWER**  
**Independence, Iowa**  
**2013 REVENUE BREAKDOWN**  
**Shows 5 Largest Customers Individually**  
**(unaudited)**



Customer	KWh	Revenue	% of Total Revenue
1 Largest Food Processing	8,399,480	\$725,393	8.76%
2 2nd Largest Food Processing	7,322,680	\$649,736	7.84%
3 3rd Largest Food Processing	4,457,640	\$428,363	5.17%
4 Largest Manufacturer	2,683,760	\$252,123	3.04%
5 2nd Largest Manufacturer	2,680,000	\$235,594	2.84%
All Others Residential	21,112,875	\$3,393,847	40.98%
Commercial	12,776,558	\$1,716,517	20.72%
Security Lights	204,576	\$31,504	0.38%
All other Industrial	5,286,111	\$507,511	6.13%
City	3,076,701	\$341,765	4.13%
<b>Total Sales</b>	<b>68,000,381</b>	<b>\$8,282,353</b>	<b>100.00%</b>

## **Basic Financial Statements**

Independence Light and Power, Telecommunications

Statement of Net Position

December 31, 2013 and 2012

ASSETS:	2013	2012
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,378,005	2,500,455
Accounts receivable, net	909,071	936,261
Unbilled revenues receivable	249,674	189,892
Interest receivable	5,114	7,498
Inventory	439,624	502,756
Prepaid expenses	16,425	40,184
	4,997,913	4,177,046
<b>Board Designated Funds:</b>		
Investment in transmission fund	266,365	266,365
Capital improvement fund	1,521,436	1,709,284
Retirement and severance fund	1,574,459	1,590,233
Self insurance fund	1,000,000	1,000,000
	4,362,260	4,565,882
<b>Capital Assets</b>		
Capital Assets	20,925,624	25,756,587
Less: Accumulated depreciation	(12,713,184)	(15,562,735)
	8,212,440	10,193,852
<b>Other Assets:</b>		
Note receivable - USDA revolving loan fund	188,572	240,000
Note receivable - Wapsie Valley Creamery	583,892	654,668
Investment in transmission	180,152	180,152
	952,616	1,074,820
<b>Total Assets</b>	\$ 18,525,229	20,011,600

Independence Light and Power, Telecommunications

Statement of Net Position (continued)

December 31, 2013 and 2012

LIABILITIES AND NET POSITION:	<u>2013</u>	<u>2012</u>
<b>Current Liabilities:</b>		
Accounts Payable	\$ 756,930	686,465
Unearned revenue	12,500	-
Accrued wages payable	49,883	48,112
Accrued vacation and sick pay	470,953	590,957
Other accrued expenses	34,126	31,636
Current portion of long term debt	<u>594,906</u>	<u>510,204</u>
Total Current Liabilities	<u>1,919,298</u>	<u>1,867,374</u>
<b>Other Liabilities:</b>		
Accrued retirement insurance	390,792	455,221
Note payable - USDA revolving loan fund	300,000	300,000
Note payable - USDA, net of current portion	513,116	654,668
Electric revenue project note payable		
Net of current portion of long-term debt shown above	<u>2,008,005</u>	<u>2,641,635</u>
Total Other Liabilities	<u>3,211,913</u>	<u>4,051,524</u>
<b>Total Liabilities</b>	5,131,211	5,918,898
<b>Net Position:</b>		
Invested in capital assets, net of related debt	5,680,305	7,042,013
Unrestricted	<u>7,713,713</u>	<u>7,050,689</u>
<b>Total Net Position</b>	<u>13,394,018</u>	<u>14,092,702</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 18,525,229</u>	<u>\$ 20,011,600</u>

Independence Light and Power, Telecommunications  
Statement of Revenues, Expenditures, and Changes in Net Position  
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues:		
Charges for services	\$ 11,303,939	11,285,494
Miscellaneous operating revenue	69,804	229,291
Total Operating Revenue	11,373,743	11,514,785
Operating expenses:		
Generation expenses	259,597	437,625
Purchased power and transmission expenses	5,681,206	5,379,531
Distribution expenses	473,347	448,364
Customer account expenses	120,586	132,909
Administration and general expenses	1,250,048	828,156
Cable and internet expenses	1,652,067	2,052,269
Depreciation and amortization expenses	960,578	951,958
Benefits to community and city	285,041	304,501
Total Operating Expenses	10,682,470	10,535,313
Operating Income	691,273	979,472
Non-Operating Revenues (Expenses):		
Interest income	48,271	53,047
Interest expense	(77,939)	(93,834)
Gain (loss) on disposal of assets	(1,419,406)	(11,784)
Other revenue	59,117	393,354
Total Non-Operating Revenues (Expenses)	(1,389,957)	340,783
Changes in Net Position	(698,684)	1,320,255
Net Position, beginning of year	14,092,702	12,772,447
Net Position, end of year	\$ 13,394,018	14,092,702

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 11,286,232	11,242,896
Cash received from other revenues	101,382	316,688
Cash paid for services	(1,318,235)	(825,771)
Cash paid to suppliers	<u>(8,311,997)</u>	<u>(8,808,030)</u>
Net cash provided by operating activities	<u>1,757,382</u>	<u>1,925,783</u>
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(931,927)	(582,195)
Disposal of capital assets	446,417	19
Principal paid on revenue notes	(70,776)	-
Principal paid on long term debt	(619,704)	(603,809)
Interest paid on revenue notes	(77,939)	(93,834)
Proceeds of long term debt issuance	-	654,668
Repayment of note receivable	70,776	(654,668)
Repayment of revolving note receivable	<u>51,428</u>	<u>51,429</u>
Net cash used by capital and related financing activities	<u>(1,131,725)</u>	<u>(1,228,390)</u>
Cash flows from investing activities:		
Cash paid for investments	-	(11,283)
Interest on investments	<u>48,271</u>	<u>53,047</u>
Net cash provided by investing activities:	<u>48,271</u>	<u>41,764</u>
Net increase in cash and cash equivalents	673,928	739,157
Cash and cash equivalents beginning of year	<u>3,466,337</u>	<u>2,727,180</u>
Cash and cash equivalents end of year	<u>\$ 4,140,265</u>	<u>3,466,337</u>

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 691,273	979,472
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	960,578	951,958
Other revenue	31,578	87,397
(Increase) decrease in:		
Accounts receivable	27,190	(45,301)
Unbilled revenues receivable	(59,782)	-
Interest receivable	2,385	2,703
Inventory	63,132	(35,428)
Prepaid expenses	23,759	1,213
Increase (decrease) in:		
Accounts payable	70,465	8,889
Unearned revenue	12,500	-
Accrued wages payable	1,770	6,601
Accrued vacation and sick pay	(69,957)	(4,216)
Other accrued expenses	2,491	-
Accrued retirement insurance	-	(27,505)
	<u>\$ 1,757,382</u>	<u>1,925,783</u>
Net cash provided by operating activities		

Independence Light and Power, Telecommunications

Notes to Financial Statements

December 31, 2013 and 2012

**(1) Summary of Significant Accounting Policies**

The Independence Light and Power, Telecommunications, municipal utilities, are subdivisions of the City of Independence, which is a political subdivision of the State of Iowa. The Utilities are considered a component unit of the City under Governmental Accounting Standards Board Statement No. 61. Independence Light and Power, Telecommunications are public utilities providing electrical, cable, internet, and telephone services to the citizens of the City of Independence, Iowa.

The Utilities' financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity:**

For reporting purposes, Independence Light and Power, Telecommunications have included all funds. The Utilities have also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board sets forth criteria to be considered in determining if the Utilities are a component unit of the City of Independence. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utilities are governed by a separate Board of Trustees which is appointed by the Mayor subject to the approval of the City Council. The financial statements are the Enterprise Funds of Independence Light and Power, Telecommunications which is a component unit of the City of Independence.

Independence Telecommunications Utility, which provides cable, internet, and telephone services, is legally separate from Independence Light and Power, the Electric Utility, but is financially accountable to the Electric Utility, or whose relationship with the Electric Utility is such that exclusion would cause the Electric Utility's financial statements to be misleading or incomplete. The Telecommunications Utility is governed by the same five-member Board as the Electric Utility, and appointed by the Mayor subject to the approval of the City Council.

**B. Basis of Presentation:**

The Statement of Net Position (previously referred to as net assets) and the Statement of Revenues, Expenses, and Changes in Net Position report information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of the interfund activity has been removed from these statements.

The Statement of Net Position displays the Utilities' nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utilities' policy to use unrestricted resources first.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting their financial activity, the Utilities apply all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utilities' Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit and investments in transmission which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable and Unbilled Revenue – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the Utilities have numerous transactions between each other and the primary government entity, the City of Independence. To the extent certain transactions between entities has not been paid or received as of December 31, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Inventories – Inventories are valued using the average cost method. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Board Designated Funds – These consist primarily of cash designated by the Board of Trustees for the improvement, replacement and expansion of capital assets, future investment in transmission, and future health insurance payments for retired employees. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets, were recorded in 1954 at their appraised value with all subsequent additions recorded at cost and are reported on the Statement of Net Position. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues, Expenditures and Net Position.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utilities as assets with initial, individual costs in excess of \$1,000 and estimated useful lives in excess of one year.

Capital assets of the Utilities are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Improvements other than buildings	15-40
Vehicles	5-10
Equipment and Computers	3-25
Furniture	7-10
Infrastructure	15-55
Land Rights and Intangibles	10-40
Telecommunications equipment	5-25

Revenue - The Statement of Revenues, Expenditures and Changes in Net Position is segregated into operating and non-operating sections. Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of the Utilities. Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

Income Taxes - Independence Light and Power, Telecommunications are subdivisions of the State of Iowa and exempt from federal and state income taxes.

## **(2) Cash and Investments**

Independence Light and Power, Telecommunications' deposits in banks at December 31, 2013 and 2012 were 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 Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; 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.

In order to offset rising transmission costs, the Independence Light & Power Board of Trustees, through and in conjunction with its membership in the Midwest Municipal Transmission Group (MMTG), on June 25, 2009 entered into a Joint Agreement as a participating municipal utility with Iowa Public Power Agency (IPPA) for investment rights in the construction or acquisition and ownership of transmission upgrades and additions to Mid American Energy Company's (MEC) transmission system. IPPA is to issue and sell bonds to finance the cost of each agreement and transmission assets are to be operated by MEC. The initial investment and ownership interest is \$122,149 and 8.891%, respectively. If, upon termination of this Joint Agreement, there remains any property or assets in which the parties own an undivided interest, said property or assets shall be disposed of on a pro-rate basis in accordance with the terms of the agreement.

On February 28, 2007, the Utility through and in conjunction with its membership in MMTG, also agreed to participate in the Brookings-Twin Cities Development Project Agreement with the Central Minnesota Municipal Power Agency (CMMPA) for the purpose of pursuing Development work for a Transmission Project. This Transmission Project (herein after referred to as "the Project") is being undertaken to assist in the maintenance and enhancement of system

reliability for electric customers in the upper Midwest region. This agreement addresses the Development phase of the Transmission Project and will be replaced with an agreement providing for ILPT's entitlement and other related rights and arrangements pertaining to the Transmission Project once the development phase is completed. The initial agreement shall be for five years, but can be extended in one year increments until the Development work has been completed. Independence Light and Power, Telecommunications' is an "open participant" in this agreement, meaning that it does not participate in CMMPA's financing of the Development work and their "Participant Election Share" is 2.43%. Participants are responsible for their share of the monthly Development work costs, whether or not the Transmission Project is actually developed. ILPT's share of the Development work cost is to be \$248,648, of which \$58,003 had been invested as of December 31, 2013.

The carrying value and the approximate market value of the Electric Utility's investment in transmission at December 31, 2013 was \$180,152.

**(3) Accounts Receivable**

As of December 31, this account consisted of the following:

	<u>2013</u>	<u>2012</u>
Accounts Receivable	\$ 985,237	1,009,294
Less: Allowance for doubtful accounts	<u>( 76,166)</u>	<u>( 73,033)</u>
Balance	<u>\$ 909,071</u>	<u>936,261</u>

**(4) Unbilled Revenues Receivable**

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Electric Utility. At December 31, 2013 and 2012, these amounts were \$249,674 and \$189,892, respectively.

**(5) Inventories**

Inventory is stated at the lower of cost or market. At December 31, inventories consisted of the following:

	<u>2013</u>	<u>2012</u>
Fuel oil	\$ 70,671	75,823
Lube oil	16	1,827
Distribution	143,822	156,868
Generation	102,258	107,832
Cable and internet supplies	<u>122,857</u>	<u>160,406</u>
	<u>\$ 439,624</u>	<u>502,756</u>

**(6) Reserved Funds**

The reserved funds are amounts the Board has restricted for specific purposes.

Capital Improvement Fund – At the October 20, 1994 meeting, the Board approved the combining of the Improvement Fund and the Future Construction Fund and called it the Capital Improvement Funds. This fund is to be used for new construction projects and improvements. Initially, monthly transfers to this fund were to be \$15,000. At the February 23, 2006 board meeting, the policy changed to have up to \$20,000 transferred to this fund each month. During 2013, monthly transfers totaled \$140,000 into the fund. Transfers from the fund during the year totaled \$327,848 for capital improvement project expenditures.

Retirement and Severance Fund – The Board of Trustees has reserved this to pay for future health insurance coverage for retired employees. It also helps fund the accrued vacation and sick leave for current employees. This fund is to equal the combined retirement and severance liabilities. \$7,700 is transferred into this fund each month. During 2013, \$92,400 was transferred into the fund. Transfers from the fund during the year totaled \$108,174 for payout of accrued sick leave expenses.

Self Insurance Fund – The Board of Trustees has reserved the amounts in this fund to replace the distribution system that might be destroyed by a natural disaster. This reduces the amount of insurance premium that would be incurred if an outside insurer were paid for this coverage. Prior to October 1994, this fund was funded with all interest income received. At the October 20, 1994 board meeting, the policy was changed to have \$2,500 transferred to this fund each month. At the February 24, 2005 board meeting, the board approved a transfer of \$181,596 to this fund from the Retirement and Severance Fund, and approved capping this fund at \$1,000,000. At the November 19, 2009 board meeting, the board approved a transfer of \$250,000 to this fund from the checking account. At the August 25, 2011 board meeting the board approved a donation to the Mustang Foundation for the building of the new Junior-Senior High School for \$500,000 to be paid from this fund. As of December 31, 2013 \$450,000 of this amount had been paid. The remaining \$50,000 will be transferred from this fund in the next calendar year. The board has approved a payback schedule of monthly transfers for \$8,333.34 for 60 months from revenues to the Self Insurance Fund.

At the April 19, 2007 Board of Director’s meeting, it was approved to create a new restricted fund - Investment in Transmission. The funds will be used for future transmission capital investing.

**(7) Capital Assets**

Capital Assets Not Being Depreciated:	<u>2013</u>	<u>2012</u>
Land	\$ 244,162	244,162
Construction in Progress	<u>          -</u>	<u>          -</u>
Total Capital Assets Not Being Depreciated	<u>\$ 244,162</u>	<u>244,162</u>
Capital Assets Being Depreciated:		
Telecommunications Outside Plant	\$ 2,307,919	2,307,919
Buildings and Improvements	203,120	123,781
Generation in Service	3,037,377	8,772,295
Distribution in Service	8,228,422	8,152,633
Office and Office Equipment	1,014,766	979,997
Small Tools	55,946	55,946
Transportation	1,358,260	1,100,929
Cable and Internet Equipment	<u>4,475,652</u>	<u>4,018,925</u>
Total Capital Assets Being Depreciated	20,681,462	25,512,425
Less Accumulated Depreciation	<u>( 12,713,184)</u>	<u>( 15,562,735)</u>
Net Capital Assets Being Depreciated	<u>7,968,278</u>	<u>9,949,690</u>
Net Capital Assets	<u>\$ 8,212,440</u>	<u>10,193,852</u>

## **(8) Accrued Vacation and Sick Pay**

At December 31, 2013 and 2012, Independence Light and Power, Telecommunications had accrued vacation payable of \$82,361 and \$90,287, respectively. An employee may carry forward only five days of vacation from one year to the next. An employee earns their vacation days on their anniversary date.

All full-time employees accrue sick leave at a rate of 2 days per month up to a maximum of two-hundred-eighty (280) days. Upon retirement, medical disability, or death, an employee will be paid up to fifty percent of 240 days of his or her accumulated sick leave. Per Board policy, Management is eligible to receive one hundred percent of 240 days of his or her accumulated sick leave if certain requirements are met. At December 31, 2013 and 2012, the accumulated sick leave was \$388,592 and \$500,669, respectively.

## **(9) Pension and Retirement Benefits**

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

As of January 1, 2013, plan members were required to contribute 5.78% of their annual covered payroll and the Utility is required to contribute 8.67% of covered payroll. The rates changed effective July 1, 2013 and the required contribution rates were 5.95% for plan members and 8.93% for the Utility. Contribution requirements are established by state statute. The contributions paid to IPERS by Independence Light and Power, Telecommunications for the years ended December 31, 2013, 2012, and 2011 were \$105,865, \$101,625, and \$93,961 and respectively, equal to the required contributions for each year.

## **(10) Other Postemployment Benefits - Accrued Retirement Insurance**

During 1986, the Board of Trustees voted to recognize the probable liability of retirement health insurance coverage by appropriating funds for this purpose, based on the life expectancy of each retiree. The criteria for determining eligibility includes years of service and employee age. The benefit is available to the spouse for up to three months after the death of the retiree. At December 31, 2013 and 2012, Independence Light and Power, Telecommunications had accrued retirement insurance of \$390,792 and \$455,221.

At a July 2004 Board of Trustees meeting, the Utilities adopted a resolution stating that future retirees would not be provided retirement health insurance coverage. Current retirees and spouses will continue to be covered under the plan.

At December 31, 2013 and 2012, Independence Light and Power, Telecommunications covered 9 retired employees and 6 retired employee's spouses and 10 retired employees and 7 retired employee's spouses, respectively.

Plan Description - The Utilities operate a single-employer benefit plan which provides medical/prescription drug benefits or Medicare supplement, if applicable, for employees, retirees and their spouses. There are 20 active employees and 15 retired employees and their spouses in the plan.

Funding Policy - The contribution requirements for plan members are established by the Utility board and may be amended. The Utilities currently finance the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the active Utility

employees are \$428 for single coverage, \$877 for single plus spouse, \$811 for single plus child, and \$1,314 for family coverage. The retiree Medicare supplemental premiums for the Utility are \$204 per retired member. For the years ended December 31, 2013 and 2012, the Utilities contributed \$290,868 and \$290,471 for health insurance premiums and their employer portion of the self-funded premiums for active and retired employees, respectively.

Annual OPEB Cost and Net OPEB Obligation -

The amount of probable liability is determined using life expectancy tables and a variable health care inflation assumption and those amounts were placed in a long-term investment. The Utilities will recognize the liability incurred as of December 31, 2013 and accordingly restrict the equivalent amount of cash.

Annual required contribution	\$ -
Adjustment to annual required contribution	<u>(64,429)</u>
Annual OPEB cost	(64,429)
Contributions made	<u>-</u>
Decrease in net OPEB obligation	(64,429)
Net OPEB obligation – beg. of year	<u>455,221</u>
 Net OPEB obligation – end of year	 <u>\$ 390,792</u>

**(11) Long-Term Debt**

The Utility issued an Electric Revenue Improvement and Refunding Note dated August 1, 2005. The balance at December 31, 2010 was \$4,136,993. On July 21, 2011 the Utility signed an Agreement to Amend Terms of Electric Revenue Improvement and Refunding Note, Series 2005, which changed the note from a variable rate to a fixed rate of 2.70% as of August 1, 2011. Monthly principal and interest payments are now \$40,736.91 beginning September 1, 2011. Beginning January 1, 2012, the Utility began paying an additional \$8,700 per month to reduce principal on the loan; the required principal and interest payment per month totals \$49,436.91. The balances at December 31, 2013 and 2012 were \$2,532,135 and \$3,151,839, respectively.

The electric revenue note is a revenue note issued under the provisions of Chapter 384 of the Code of Iowa and, as such, the principal and interest are payable from the revenue from operations of the Utility. Independence Light & Power reserves the right to prepay principal on this note in whole or in part at any time prior to and in any order of maturity on terms of par and accrued interest.

In 2010 Independence Light & Power received a \$300,000 loan from the United States Department of Agriculture in order to establish a revolving loan fund. The Utility also was required to contribute \$60,000 of its own funds towards the revolving loan fund. The total of \$360,000 is available for the Utility to make loans to customers for economic development purposes. As the funds are paid back, the Utility is able to loan the funds to other customers. During the year 2010, the entire balance of \$360,000 was loaned to the Buchanan County Health Center (BCHC) for their ambulance addition and remodeling project as a seven year, zero interest loan. As of December 31, 2013 and 2012 the loan receivable balances were \$188,572 and \$240,000, respectively.

In 2012 the Utility received a \$707,750 loan from the United States Department of Agriculture (USDA) in the role of an intermediary for the final recipient, Wapsie Valley Creamery, Inc. The loan is provided as part of the Rural Economic Development Loan and Grant Program, runs for ten years, and carries an interest rate of zero. The Utility is to collect monthly principal from Wapsie Valley Creamery, Inc. in the amount of \$5,898 and remit to the USDA. Balances outstanding at December 31, 2013 and 2012 were \$583,892 and \$654,668, respectively.

The details of the Independence Light & Power's indebtedness are as follows:

Year Ending December, 31	Principal	Interest	Total
2014	594,906	69,113	664,019
2015	609,234	54,785	664,019
2016	623,930	40,089	664,019
2017	639,083	24,936	664,019
2018	418,862	9,408	428,270
2019 - 2022	230,012	-	230,012
Total	<u>\$ 3,116,027</u>	<u>198,331</u>	<u>3,314,358</u>

### **(12) Related Party Transactions**

Independence Light and Power, Telecommunications provides electrical service to the City of Independence. During the years ended December 31, 2013 and 2012, the charges for this electrical service were \$341,765 and \$317,952, respectively. In addition, the City paid \$24,748 and \$23,880, respectively, for meter reading.

During 2013 and 2012, Independence Light & Power, Telecommunications donated \$156,000 to the City of Independence.

### **(13) Lease Agreements**

Independence Light and Power, Telecommunications has a Joint Use Contract with CenturyLink Corporation (formerly Qwest Corporation). Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by CenturyLink Corporation) was 518 poles. During the years ended December 31, 2013 and 2012, Independence Light and Power, Telecommunications received \$9,419 and \$9,548, respectively.

The Utilities also have a Joint Use Contract with Mediacom. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by Mediacom) was 1,773 poles. During the years ended December 31, 2013 and 2012, Independence Light and Power, Telecommunications received \$29,769 and \$29,769 and respectively.

### **(14) Commitments**

On March 2, 2006, the Electric Utility signed a letter of intent to purchase power from Wisconsin Public Power, Inc. (WPPI). The letter of intent states the contract period will be from May 1, 2006 through December 31, 2037 with an average wholesale cost of power projected to be \$58.28/MWh for 2006. An official contract for service was approved and signed at the April 20, 2006 meeting of the board of directors.

At the August 25, 2011 board meeting it was agreed to pledge a donation of \$500,000 to the Mustang Foundation's "Bridge the Gap" campaign to build a new Junior-Senior High School in Independence. The donation is to be used for energy efficient equipment for the new school.

As of December 31, 2013, \$450,000 of the pledge had been paid with the remainder to be paid in the next calendar year.

#### **(15) Risk Management**

Independence Light and Power, Telecommunications 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. Except for distribution property and equipment, these risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years. The Utility has retained the risk of damage to and destruction of most distribution property and equipment and maintains funds intended to cover potential losses relating thereto as described in Note 6 – Reserve Funds. There were no material estimated liabilities or claims paid during the past fiscal year.

#### **(16) Subsequent Events**

In May 2014, the Utilities entered into a separation agreement with its General Manager. Subsequently, in October 2014 the position was refilled and in November an Assistant General Manager position was created and filled. Both are for one year terms and were filled by current employees of the Utilities.

In August 2014, the Light & Power Utility agreed to begin providing distribution services to Coggon Municipal Light Plant on September 1, 2014. The Light & Power Utility will provide distribution services until such time Coggon Municipal Light Plant is able to fill a vacant plant superintendent position.

In September 2014, the Telecommunications Utility Board approved entering a USDA Rural Economic Development loan award to be passed through to Wapsie Valley Creamery, Inc. in the amount of \$2,000,000. The funds were received in November 2014 from the USDA and expected to be passed through to Wapsie Valley Creamery, Inc. before the end of the calendar year ending December 31, 2014. This transaction creates a long-term liability to the USDA and a long-term note receivable from Wapsie Valley Creamery, Inc.

At various times between January 2014 and October 2014, the Light & Power Utility board approved making additional principal payments towards the Electric Revenue Improvement and Refunding note payable. These additional principal payments totaled \$1,579,504.

#### **(17) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for calendar year ending December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Utilities' proportionate shares of the employee pension plan.

**Required Supplementary Information**

Independence Light and Power, Telecommunications

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position  
Budget to Actual (Cash Basis)

December 31, 2013

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Final to Actual Cash Basis Variance
Total Revenues	\$ 11,481,131	523,375	12,004,506	12,817,091	(812,585)
Total Expenditures	(12,179,815)	849,237	(11,330,578)	(12,486,255)	1,155,677
Net	(698,684)	1,372,612	673,928	330,836	343,092
Balance, Beginning of year	14,092,702	(7,026,365)	7,066,337	1,986,165	(5,080,172)
Balance, End of year	\$ 13,394,018	(5,653,753)	7,740,265	2,317,001	(5,423,264)

Independence Light and Power, Telecommunications

Notes to Required Supplementary Information – Budgetary Reporting

December 31, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Disbursements did not exceed amounts budgeted at December 31, 2013.

**Supplementary Information**

## Independence Light and Power, Telecommunications

## Treasurer's Balance

December 31, 2013

	Cash and Cash Equivalents	Time Deposits	Total	Maximum Authorized Deposit
Security State Bank Independence, Iowa	\$ 643,535	1,200,000	1,843,535	8,000,000
Deposits in transit	-		-	
Outstanding checks	-		-	
Security State Balance			<u>1,843,535</u>	
BankIowa Independence, Iowa	3,531,730	2,400,000	5,931,730	8,000,000
Deposits in transit	230		230	
Outstanding checks	(36,030)		<u>(36,030)</u>	
BankIowa Balance			<u>5,895,930</u>	
Cash on Hand	<u>800</u>		<u>800</u>	
Total Balance	<u>\$ 4,140,265</u>	<u>3,600,000</u>	<u>7,740,265</u>	

## Independence Light and Power, Telecommunication

## Schedule of Operating Expenses

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Generation Expenses:</b>		
Fuel oil expense	\$ 5,152	137,058
Natural gas - boiler	18,508	21,034
Operating expenses	2,014	5,363
Generating vacation and sick leave	16,787	65,876
Supervision	75,644	73,012
Maintenance of generators and equipment	31,214	43,444
Miscellaneous generation expenses	110,278	91,838
	<u>259,597</u>	<u>437,625</u>
<b>Purchased Power and Transmission Expenses:</b>		
Purchased power	5,614,801	5,373,941
Station - transmission	7,699	-
Transmission of Electricity	54,824	-
Maintenance of plant - transmission	389	2,097
Miscellaneous transmission expenses	3,493	3,493
	<u>5,681,206</u>	<u>5,379,531</u>
<b>Distribution Expenses:</b>		
Operation and maintenance of overhead	85,915	87,827
Operation and maintenance of underground	36,338	52,800
Operation and maintenance of transformers	4,477	1,054
Operation and maintenance of street lights	669	288
Operation and maintenance of security lights	2,695	4,054
Operation and maintenance of meters	12,306	10,458
Operation and maintenance of customer services	50,434	48,648
Operation and maintenance of traffic signals	-	27
Operation and maintenance of substation	28,181	19,138
Distribution supervision	107,122	96,099
General distribution labor	34,650	32,546
Distribution vacation and sick leave	50,935	53,684
Miscellaneous distribution expenses	59,625	41,741
	<u>473,347</u>	<u>448,364</u>
<b>Customer Accounts Expense:</b>		
Customer records and collections	88,749	100,883
Bad debt expense	8,227	8,779
Meter reading	23,610	23,247
	<u>120,586</u>	<u>132,909</u>

Administration and General Expenses:		
Office salaries	291,101	151,061
Office vacation and sick leave	101,258	45,614
Property insurance	111,921	88,784
Outside services	67,448	36,911
Office supplies, telephone, and postage	21,294	17,982
Employer FICA	97,787	70,582
Employer IPERS	105,865	73,131
Maintenance - general	10,460	8,822
Miscellaneous expense	95,347	55,634
Uniforms	9,049	5,784
Safety expenses and equipment	17,196	12,769
Employee benefits	225,822	191,461
Energy efficiency programs	26,339	11,875
Marketing	4,330	1,263
Transportation	64,831	56,483
	<u>1,250,048</u>	<u>828,156</u>
Cable and internet expenses	<u>1,652,067</u>	<u>2,052,269</u>
Depreciation and amortization expenses	<u>960,578</u>	<u>951,958</u>
Benefits to Community and City:		
Cash donations to city	156,000	156,000
Labor benefits to city	16,897	40,596
Community benefits	112,144	107,905
	<u>285,041</u>	<u>304,501</u>
Total Operating Expenses	<u>\$ 10,682,470</u>	<u>10,535,313</u>

Independence Light and Power, Telecommunication  
Combining Statement of Net Position  
December 31, 2013

	ILP	ITU	Combined
<b>ASSETS:</b>			
<b>Current Assets:</b>			
Cash	\$ 1,816,501	\$ 1,561,504	\$ 3,378,005
Accounts receivable	666,950	242,121	909,071
Unbilled revenues receivable	249,674	-	249,674
Interest receivable	5,114	-	5,114
Inventory	316,767	122,857	439,624
Prepaid expenses	7,549	8,876	16,425
<b>Total Current Assets</b>	<b>3,062,555</b>	<b>1,935,358</b>	<b>4,997,913</b>
<b>Board Designated Funds:</b>			
Transmission capital investment fund	266,365	-	266,365
Capital improvement fund	1,521,436	-	1,521,436
Retirement and severance fund	1,574,459	-	1,574,459
Self insurance fund	1,000,000	-	1,000,000
<b>Total Board Designated Funds</b>	<b>4,362,260</b>	<b>-</b>	<b>4,362,260</b>
<b>Capital Assets</b>	<b>15,924,165</b>	<b>5,001,459</b>	<b>20,925,624</b>
Less: Accumulated depreciation	(10,073,139)	(2,640,045)	(12,713,184)
<b>Net Capital Assets</b>	<b>5,851,026</b>	<b>2,361,414</b>	<b>8,212,440</b>
<b>Other Assets:</b>			
Note receivable - revolving loan fund	188,572	-	188,572
Note receivable - wvc	583,892	-	583,892
Investment in transmission	180,152	-	180,152
<b>Total Other Assets</b>	<b>952,616</b>	<b>-</b>	<b>952,616</b>
<b>Total Assets</b>	<b>\$ 14,228,457</b>	<b>\$ 4,296,772</b>	<b>\$ 18,525,229</b>
<b>LIABILITIES AND NET POSITION:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 662,986	\$ 93,944	\$ 756,930
Unearned Revenue	12,500	-	12,500
Accrued wages payable	36,179	13,704	49,883
Accrued vacation and sick pay	370,992	99,961	470,953
Other accrued expenses	8,058	26,068	34,126
Current portion of long term debt	594,906	-	594,906
<b>Total Current Liabilities</b>	<b>1,685,621</b>	<b>233,677</b>	<b>1,919,298</b>
<b>Other Liabilities:</b>			
Accrued retirement insurance	390,792	-	390,792
Note Payable - USDA RLF	300,000	-	300,000
Note Payable - USDA WVC net of current portion	513,116	-	513,116
Electric revenue project note payable Net of current portion of long-term debt	2,008,005	-	2,008,005
<b>Total Other Liabilities</b>	<b>3,211,913</b>	<b>-</b>	<b>3,211,913</b>
<b>Net Position:</b>			
Investment in capital assets, net of related debt	3,318,891	2,361,414	5,680,305
Unrestricted	6,012,032	1,701,681	7,713,713
<b>Total Net Position</b>	<b>9,330,923</b>	<b>4,063,095</b>	<b>13,394,018</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 14,228,457</b>	<b>\$ 4,296,772</b>	<b>\$ 18,525,229</b>

Independence Light and Power, Telecommunication  
Combining Statement of Revenues, Expenses and Changes in Net Position  
December 31, 2013

	ILP	ITU	Combined
Operating Revenues:			
Sales to customers	\$ 8,451,935	\$ 2,852,004	\$ 11,303,939
Miscellaneous operating revenue	53,098	16,706	69,804
<b>Total Operating Revenue</b>	<b>8,505,033</b>	<b>2,868,710</b>	<b>11,373,743</b>
Operating expenses:			
Generation expenses	259,597	-	259,597
Purchased power and transmission expenses	5,681,206	-	5,681,206
Distribution expenses	473,347	-	473,347
Customer account expenses	120,586	-	120,586
Administration and general expenses	853,326	396,722	1,250,048
Cable and internet expenses	8,556	1,643,511	1,652,067
Depreciation and amortization expenses	540,586	419,992	960,578
Benefits to community and city	284,658	383	285,041
<b>Total Operating Expenses</b>	<b>8,221,852</b>	<b>2,460,608</b>	<b>10,682,470</b>
<b>Total Operating Income</b>	<b>283,171</b>	<b>408,102</b>	<b>691,273</b>
Non-Operating Revenues(Expenses):			
Interest income	37,806	10,465	48,271
Interest expense	(77,939)	-	(77,939)
Gain (loss) on disposal of assets	(1,425,906)	6,500	(1,419,406)
Other revenue	31,578	27,539	59,117
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(1,434,461)</b>	<b>44,504</b>	<b>(1,389,957)</b>
<b>Changes in Net Position</b>	<b>(1,151,290)</b>	<b>452,606</b>	<b>(698,684)</b>
<b>Net Position, beginning of year</b>	<b>10,482,213</b>	<b>3,610,489</b>	<b>14,092,702</b>
<b>Net Position, end of year</b>	<b>\$ 9,330,923</b>	<b>\$ 4,063,095</b>	<b>\$ 13,394,018</b>

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Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees  
Independence Light and Power, Telecommunications  
Independence, Iowa 50644

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of Independence Light & Power, Telecommunications, Independence, Iowa, as of and for the years ended December 31, 2013 and 2012, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our reports thereon dated December 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independence Light & Power, Telecommunications' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independence Light & Power, Telecommunications' internal control. Accordingly, we do not express an opinion on the effectiveness of Independence Light & Power, Telecommunications' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness and deficiencies in internal control we consider to be significant deficiencies.

A deficiency in internal control exists when the design and 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 a material misstatement of Independence Light & Power, Telecommunications' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in

Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-13 and II-C-13 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Light & Power, Telecommunications' 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 Governmental Auditing Standards. However we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

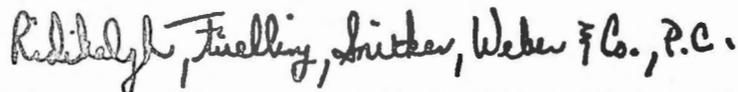
### Independence Light & Power, Telecommunications' Responses to Findings

Independence Light & Power, Telecommunications' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independence Light & Power, Telecommunications' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

December 1, 2014

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

## **Part II: Findings Related to the Financial Statements:**

### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

### **INTERNAL CONTROL DEFICIENCIES:**

II-A-13 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. These incompatible duties can be summarized into four general categories: Custody, Authorization, Record-Keeping and Review. Ideally, separate individuals have control over each of the duties listed (not a comprehensive listing) within the following areas for the Utilities:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparation and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Utilities should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – Independence Light and Power, Telecommunications is a small municipal utility with an office staff consisting of two billing clerks, one accounts payable clerk, one receptionist and an office manager. The billing clerks, accounts payable clerk and receptionist can receipt in cash and checks. Balancing the two cash drawers to the cash receipts software is rotated on a daily basis, depending on workload. The billing clerks prepare the deposit tickets. All cash customers are given a receipt and all others are asked if they want a receipt. A printed receipt is put in the cash drawer for all cash and checks received listing the dollar amount and become part of our permanent records. The office manager and billing clerks investigate any customer complaints regarding receipts. In a municipal utility, there are serious consequences for delinquent invoices, therefore, if a customer has paid their invoice and has not received credit for it they will probably file a complaint. Our software allows searches on a specific dollar amount paid and receipts can be physically looked at as they are filed by date received and batch in which they were entered. A software generated tape of the receipts is attached to the grouping.

The accounts payable clerk enters invoices and prepares checks. Invoices are approved by the general manager or assistant general manager. All checks require two signatures by either the general manager, the assistant general manager, or the office manager. The office manager reconciles the bank statement each month and prepares a report for the Board of Trustees. The Board of Trustees approves all payments. All checking account withdrawals and deposits are tied back to the accounting software.

All payroll timesheets are approved by department supervisors and is prepared by the office manager. The general manager approves timesheets for supervisors and reviews all deposit advises.

Conclusion – Response acknowledged.

- II-B-13 Preparation of Financial Statements - Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Utilities do not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an entity of this size.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the Utilities' management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the time necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on an ongoing basis. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response acknowledged.

- II-C-13 Budget Amendments – During the year, Independence Light & Power amended its budget. Fund balances, both beginning and ending, on the budget amendment do not agree to the Original Certified Budget. Management was unable to provide documentation supporting the change.

Recommendation – We recommend any changes to Original Budget line items be approved via the Current Amendment column when a budget amendment is approved and published. Documentation supporting the changes made via the budget amendment should be retained.

Response – The Utility will review current procedures and adjust accordingly.

Conclusion – Response acknowledged.

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-13 Certified Budget – Disbursements during the year ended December 31, 2013 did not exceed the amounts budgeted in the business type activities functions.
- III-B-13 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-13 Travel Expense – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-13 Business Transactions – There were no material business transactions between the Utility and Utility officials or employees.
- III-E-13 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 insure the coverage is adequate for current operations.
- III-F-13 Board of Trustees Minutes – An instance was noted where the Board voted to enter closed session, but sufficient information was not provided in the minutes to indicate the vote of each member and to indicate the session was closed by a 2/3 vote of each member present as required by Chapter 21.5 of the Code of Iowa.  
  
Recommendation – The Utility should comply with Chapter 21 of the Code of Iowa and provide sufficient information indicating the vote of Board members.  
  
Response – We will comply with this recommendation.  
  
Conclusion – Response accepted.
- III-G-13 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policies were noted.
- III-H-13 Revenue Notes – No instances of noncompliance with the Electric Revenue Note provisions were noted.
- III-I-13 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.