

**MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF  
MT. PLEASANT, IOWA**

Independent Auditors' Reports  
Basic Financial Statements  
and Supplemental Information  
Schedule of Findings

June 30, 2014

**MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

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MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Board of Trustees and Officials  
June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
Dan McCabe	Chairman of the Board	October, 2017
David George	Board Member	October, 2019
Michelle Rosell	Board Member	October, 2019
Harvey Ungerman	Board Member	October, 2015
Carol Nemitz	Board Member	October, 2015
Jack Hedgecock	General Manager	Indefinite
Randall Neff	Treasurer/Business Manager	Indefinite
David McCoid	Attorney	Indefinite

Offices located in:  
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### Independent Auditors' Report

To the Board of Trustees  
Mt. Pleasant Municipal Utilities  
Mt. Pleasant, Iowa

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements as 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 accounting principles generally accepted in the United States of America; 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.

#### **Auditors' Responsibility**

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 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Mt. Pleasant Municipal Utilities' 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 Mt. Pleasant Municipal Utilities' 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Basis for Qualified Opinions**

As explained in Note 2 of the notes to financial statements, an accurate listing of property and equipment acquired in prior years has not been retained. Because of this, it is likely that Mt. Pleasant Municipal Utilities no longer owns some of the assets included in the property and equipment. In our opinion, an accurate listing should be kept in order to make sure that the balance conforms with accounting principles generally accepted in the United States of America. The effect on the financial statements of this practice is not reasonably determined.

## **Qualified Opinions**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2014, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the Management’s Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 25 through 27 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 auditing standards generally accepted in the United States of America, 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 required supplementary 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 Mt. Pleasant Utilities’ basic financial statements. The supplemental information included in pages 28 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The information on pages 29 through 38 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and has been subjected to the auditing procedures applied in our 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 auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the supplementary information of the qualified opinion on the basic financial statements as explained in the “Basis for Qualified Opinion” paragraph, the supplementary information on pages 29 through 38 is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 06, 2014, on our consideration of Mt. Pleasant Municipal Utilities’, a component unit of the City of Mt. Pleasant, Iowa, 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.

*TD&T CPAs and Advisors, P.C.*

Mt. Pleasant, Iowa  
October 06, 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

## **2014 FINANCIAL HIGHLIGHTS**

- Operating revenues of the Utilities' activities increased 2.8%, or approximately \$295,000, from fiscal year 2013 to fiscal year 2014.
- Operating expenses increased 5.4%, or approximately \$497,000, from fiscal year 2013 to fiscal year 2014.
- Mt. Pleasant Municipal Utilities' net position increased 6.7%, or approximately \$1,182,000, from June 30, 2013 to June 30, 2014.

## **USING THIS ANNUAL REPORT**

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Financial Statements consist of a Combining Statement of Net Position, a Combining Statement of Revenue, Expenses and Changes in Net Position, and a Combining Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Municipal Utilities as a whole and present an overall view of the Utilities' finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides unaudited comparative operating statistics as well as additional detail for the Combining Statement of Net Position, Combining Statement of Revenue, Expenses and Changes in Net Position, and note maturities.

## **REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

### *The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position*

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Combining Statement of Net Position presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Utilities' net position may serve as a useful indicator of whether the financial position of Mt. Pleasant Municipal Utilities is improving or deteriorating.

The Combining Statement of Revenue, Expenses and Changes in Net Position presents information showing how the Utilities' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position report one kind of activity:

- Business type activities, which include the water and the electric funds. These activities are financed primarily by user charges.

## FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for business type activities.

	Net Position June 30,	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 6,248,244	5,686,531
Capital assets	<u>17,473,582</u>	<u>17,723,860</u>
Total assets	\$ <u>23,721,826</u>	<u>23,410,391</u>
Long-term liabilities	\$ 2,664,326	3,581,476
Other liabilities	<u>2,189,092</u>	<u>2,142,856</u>
Total liabilities	\$ <u>4,853,418</u>	<u>5,724,332</u>
Net position:		
Net investment in capital assets	\$ 13,881,628	13,234,590
Restricted	360,190	360,155
Unrestricted	<u>4,626,590</u>	<u>4,091,314</u>
Total net position	\$ <u>18,868,408</u>	<u>17,686,059</u>

Net position of business type activities increased approximately \$1,182,000, or 6.7%, over fiscal year 2013. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is \$4,626,590 at the end of this year.

Changes in Net Position  
Year Ended June 30,

	2014	2013
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 10,886,371	10,591,661
Non-operating revenues:		
Investment earnings	4,588	4,771
Grant revenue	16,313	7,167
Insurance proceeds	82,645	-
Other non-operating revenue	7,743	11,239
Total revenues	10,997,660	10,614,838
Operating expenses:		
Power, pumping and treatment plant	6,596,873	6,377,540
Transmission and distribution	1,606,534	1,374,083
General and administration	1,408,988	1,364,182
Non-operating expenses:		
Interest expense	101,916	120,503
Other non-operating expense	1,000	500
Total expenses	9,715,311	9,236,808
Increase in net position	1,282,349	1,378,030
Net position beginning of year	17,686,059	16,408,029
Permanent transfer to City of Mt. Pleasant	(100,000)	(100,000)
Net position end of year	\$ 18,868,408	17,686,059

Revenues for business type activities increased by approximately \$383,000 over the prior year while total expenses were approximately \$479,000 more than the prior fiscal year.

**INDIVIDUAL MAJOR FUND ANALYSIS**

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2014 with a \$7,597,752 net position balance compared to the prior year ending net position balance of \$7,401,034.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2014 with a \$11,270,656 net position balance compared to the prior year ending net position balance of \$10,285,025.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Mt. Pleasant Municipal Utilities amended its budget two times. The amendments occurred in February and May of 2014 to increase budgeted expenses.

The Utilities' receipts were \$177,326 less than budgeted, a variance of 1.6% and total disbursements were \$322,365 less than budgeted, a variance of 3.1%.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Utilities' capital assets include buildings, improvements, and equipment. Capital assets totaled \$17,473,582 (net of accumulated depreciation) at June 30, 2014. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2014 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

### **Long-Term Debt**

At June 30, 2014, long-term debt outstanding, including notes payable and a capital lease, was \$3,581,477. Debt decreased as a result of scheduled payments.

Additional information about the Utilities' long-term debt is presented in Note 11 to the financial statements.

## **ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE**

Several economic factors affected decisions made by the Utilities in setting its fiscal 2015 budget.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mt. Pleasant Municipal Utilities' finances and operating activities. If you have any questions or require additional financial information, please contact the General Manager, 509 N. Adams; Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Position  
June 30, 2014

	<u>Assets</u>		
	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 3,340,458	202,486	3,542,944
Receivables:			
Customer	462,542	104,159	566,701
Unbilled usage	576,683	124,393	701,076
Due from water fund	105,134	-	105,134
Material and supplies inventory	420,464	154,403	574,867
Prepaid expenses	101,412	21,202	122,614
Restricted assets:			
Cash	241,802	32,916	274,718
Certificates of deposit	360,000	-	360,000
Accrued interest receivable	190	-	190
Total current assets	<u>5,608,685</u>	<u>639,559</u>	<u>6,248,244</u>
Non-current assets:			
Property and equipment	24,747,753	18,965,356	43,713,109
Accumulated depreciation	<u>(16,658,525)</u>	<u>(9,581,002)</u>	<u>(26,239,527)</u>
Total non-current assets	<u>8,089,228</u>	<u>9,384,354</u>	<u>17,473,582</u>
Total assets	\$ <u><u>13,697,913</u></u>	<u><u>10,023,913</u></u>	<u><u>23,721,826</u></u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Position  
June 30, 2014

Liabilities and Net Position

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 875,145	131,111	1,006,256
Due to electric fund	-	105,134	105,134
Customer deposits	150,074	-	150,074
Accrued interest	7,561	2,916	10,477
Capital lease payable	39,151	-	39,151
Notes payable	505,000	373,000	878,000
Total current liabilities	<u>1,576,931</u>	<u>612,161</u>	<u>2,189,092</u>
Long-term liabilities:			
Capital lease payable	40,326	-	40,326
Notes payable	810,000	1,814,000	2,624,000
Total long-term liabilities	<u>850,326</u>	<u>1,814,000</u>	<u>2,664,326</u>
Total liabilities	<u>2,427,257</u>	<u>2,426,161</u>	<u>4,853,418</u>
Net position:			
Net investment in capital assets	6,687,190	7,194,438	13,881,628
Restricted for:			
Reserve account	360,190	-	360,190
Unrestricted	4,223,276	403,314	4,626,590
Total net position	<u>11,270,656</u>	<u>7,597,752</u>	<u>18,868,408</u>
Total liabilities and net position	<u>\$ 13,697,913</u>	<u>10,023,913</u>	<u>23,721,826</u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Revenue, Expenses  
and Changes in Net Position  
Year Ended June 30, 2014

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating revenue:			
Metered sales	\$ 8,793,806	1,936,406	10,730,212
Other sales	44,037	-	44,037
Other revenue	21,355	14,151	35,506
Cut-off notice fee	11,793	2,720	14,513
Sewer and solid waste service fee	14,626	3,374	18,000
Penalty charges and bad debt recoveries	35,837	8,266	44,103
Total operating revenue	<u>8,921,454</u>	<u>1,964,917</u>	<u>10,886,371</u>
Operating expenses:			
Power, pumping and treatment plant	5,778,248	818,625	6,596,873
Transmission and distribution	873,549	732,985	1,606,534
General and administration	1,144,901	264,087	1,408,988
Total operating expenses	<u>7,796,698</u>	<u>1,815,697</u>	<u>9,612,395</u>
Net operating income	<u>1,124,756</u>	<u>149,220</u>	<u>1,273,976</u>
Non-operating revenue:			
Interest income	2,978	(222)	2,756
Interest income - restricted	1,257	575	1,832
Gain on disposition of property and equipment	3,807	3,936	7,743
Grant revenue	16,313	-	16,313
Insurance proceeds	-	82,645	82,645
Total non-operating revenue	<u>24,355</u>	<u>86,934</u>	<u>111,289</u>
Non-operating expenses:			
Interest expense	62,980	38,936	101,916
Banking fees	500	500	1,000
Total non-operating expenses	<u>63,480</u>	<u>39,436</u>	<u>102,916</u>
Change in net position	1,085,631	196,718	1,282,349
Net position, beginning of year	10,285,025	7,401,034	17,686,059
Permanent transfer to City of Mt. Pleasant	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net position, end of year	<u>\$ 11,270,656</u>	<u>7,597,752</u>	<u>18,868,408</u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows  
Year Ended June 30, 2014

	Electric	Water	Total
Cash flows from operating activities:			
Cash received from customers and users	\$ 9,001,299	1,960,418	10,961,717
Cash paid to employees for services	(1,064,308)	(772,666)	(1,836,974)
Cash paid to suppliers	(6,019,071)	(491,027)	(6,510,098)
Net cash provided (used) by operating activities	1,917,920	696,725	2,614,645
Cash flows from non-capital financing activities:			
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(490,000)	(366,000)	(856,000)
Interest paid on notes payable	(62,273)	(39,424)	(101,697)
Principal paid on capital lease	(38,010)	-	(38,010)
Interest paid on capital lease	(3,525)	-	(3,525)
Cash paid for banking fees on notes payable	(500)	(500)	(1,000)
Grant revenue	16,313	-	16,313
Insurance proceeds	-	82,645	82,645
Purchase of property and equipment	(351,641)	(489,897)	(841,538)
Proceeds from disposition of property and equipment	3,807	3,936	7,743
Net cash provided (used) by capital activities	(925,829)	(809,240)	(1,735,069)
Cash flows from investing activities:			
Interest on investments	4,200	353	4,553
Net change in cash and cash equivalents	896,291	(112,162)	784,129
Cash and cash equivalents at beginning of year	2,685,969	347,564	3,033,533
Cash and cash equivalents at end of year	\$ 3,582,260	235,402	3,817,662

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)  
Year Ended June 30, 2014

	Electric	Water	Total
Cash flows from operating activities:			
Operating income	\$ 1,124,756	149,220	1,273,976
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	633,495	458,321	1,091,816
Changes in assets and liabilities:			
(Increase) decrease in due from other fund	4,715	(4,715)	-
(Increase) decrease in customer receivables	79,623	4,827	84,450
(Increase) decrease in unbilled usage	(16,237)	(4,609)	(20,846)
(Increase) decrease in inventories	24,093	(36,820)	(12,727)
(Increase) decrease in prepaid expense	97,746	69,113	166,859
Increase (decrease) in customer deposits	11,742	-	11,742
Increase (decrease) in accounts payable and accrued expenses	(42,013)	61,388	19,375
Net cash provided (used) by operating activities	1,917,920	696,725	2,614,645
Cash flows from non-capital financing activities:			
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(490,000)	(366,000)	(856,000)
Interest paid on notes payable	(62,273)	(39,424)	(101,697)
Principal paid on capital lease	(38,010)	-	(38,010)
Interest paid on capital lease	(3,525)	-	(3,525)
Cash paid for banking fees	(500)	(500)	(1,000)
Grant revenue	16,313	-	16,313
Insurance proceeds	-	82,645	82,645
Purchase of property and equipment	(351,641)	(489,897)	(841,538)
Proceeds from disposition of property and equipment	3,807	3,936	7,743
Net cash provided (used) by capital activities	(925,829)	(809,240)	(1,735,069)

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)  
Year Ended June 30, 2014

	Electric	Water	Total
Cash flows from investing activities:			
Interest on investments	4,200	353	4,553
Net change in cash and cash equivalents	896,291	(112,162)	784,129
Cash and cash equivalents at beginning of year	2,685,969	347,564	3,033,533
Cash and cash equivalents at end of year	\$ 3,582,260	235,402	3,817,662
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 3,340,458	202,486	3,542,944
Restricted assets:			
Customer deposits	150,074	-	150,074
Notes payable retirement	91,728	32,916	124,644
Total cash and cash equivalents at end of year	\$ 3,582,260	235,402	3,817,662

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements  
June 30, 2014

Note 1 – Significant Accounting Policies

Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry, and other entities in Mt. Pleasant and surrounding areas.

The financial statements of Mt. Pleasant Municipal Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has 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 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 Utilities 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 Utilities.

These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council.

Basis of Presentation

The accounts of Mt. Pleasant Municipal Utilities are organized on the basis of enterprise funds. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net position, revenues and expenses. Mt. Pleasant Municipal Utilities reports the following major enterprise funds:

The Electric Fund is used to account for the operation and maintenance of the electric system.

The Water Fund is used to account for the operation and maintenance of the water system.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 1 – Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the Combining 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 Usage

The Utilities grants credit to the businesses and residents of Mt. Pleasant and surrounding areas to which electric and water services are supplied. Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is 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 has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded.

Inventories

Inventories are valued at the lower of average cost or market. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 1 – Significant Accounting Policies (Continued)

Restricted Assets

Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Net Position are allocated 81.257% and 18.743% to the Electric and Water Funds, respectively.

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Property and Equipment Accounting Policies

An accurate listing of assets acquired in prior years has not been retained by the Utilities. Because of this, it is likely that there are items included in the balance of property and equipment that are no longer owned by the Utilities, which is not in accordance with accounting principles generally accepted in the United States of America. Because the cost records are not available, it is impossible to determine the effect on the presentation of financial position and results of operations.

Property and equipment is recorded at historical cost. 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 as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 2 – Property and Equipment Accounting Policies (Continued)

<u>Asset Class</u>	<u>Amount</u>
Buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	25,000
Intangibles	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-40
Improvements other than buildings	15
Vehicles	7-8
Equipment	5-30
Infrastructure	30-40
Intangibles	5-8

A summary of the Electric Fund's capital assets at June 30, 2014 follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Capital assets not being depreciated:				
Construction in progress	\$ 46,614	183,732	( 46,614)	183,732
Capital assets being depreciated:				
Buildings and improvements	1,092,778	51,638	-	1,144,416
Generating equipment	12,043,500	-	-	12,043,500
Distribution equipment	9,481,291	87,996	-	9,569,287
Other equipment	<u>1,743,752</u>	<u>74,889</u>	<u>( 11,823)</u>	<u>1,806,818</u>
Total capital assets being depreciated	<u>24,361,321</u>	<u>214,523</u>	<u>( 11,823)</u>	<u>24,564,021</u>
Less accumulated depreciation for:				
Buildings and improvements	894,912	14,495	-	909,407
Generating equipment	6,343,079	335,789	-	6,678,868
Distribution equipment	7,365,758	217,237	-	7,582,995
Other equipment	<u>1,433,104</u>	<u>65,974</u>	<u>( 11,823)</u>	<u>1,487,255</u>
Total accumulated depreciation	<u>16,036,853</u>	<u>633,495</u>	<u>( 11,823)</u>	<u>16,658,525</u>
Total capital assets being depreciated, net	<u>8,324,468</u>	<u>( 418,972)</u>	<u>-</u>	<u>7,905,496</u>
Total capital assets, net	\$ <u>8,371,082</u>	<u>( 235,240)</u>	<u>( 46,614)</u>	<u>8,089,228</u>

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 2 – Property and Equipment Accounting Policies (Continued)

A summary of the Water Fund's capital assets at June 30, 2014 follows:

	Balance Beginning <u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	Balance End <u>of Year</u>
Capital assets not being depreciated:				
Construction in progress	\$ 51,725	-	( 51,725)	-
Land	<u>131,975</u>	-	-	<u>131,975</u>
Total capital assets not being depreciated	<u>183,700</u>	-	( 51,725)	<u>131,975</u>
Capital assets being depreciated:				
Buildings and improvements	1,433,026	6,933	-	1,439,959
Pumping and treatment equipment	7,770,795	403,670	-	8,174,465
Distribution equipment	6,605,358	108,034	-	6,713,392
Water tower	1,592,798	-	-	1,592,798
Other equipment	<u>889,782</u>	<u>22,985</u>	-	<u>912,767</u>
Total capital assets being depreciated	<u>18,291,759</u>	<u>541,622</u>	-	<u>18,833,381</u>
Less accumulated depreciation for:				
Buildings and improvements	1,038,561	29,357	-	1,067,918
Pumping and treatment equipment	2,954,604	209,667	-	3,164,271
Water tower	791,205	39,961	-	831,166
Distribution equipment	3,590,794	133,254	-	3,724,048
Other equipment	<u>747,517</u>	<u>46,082</u>	-	<u>793,599</u>
Total accumulated depreciation	<u>9,122,681</u>	<u>458,321</u>	-	<u>9,581,002</u>
Total capital assets being depreciated, net	<u>9,169,078</u>	<u>83,301</u>	-	<u>9,252,379</u>
Total capital assets, net	\$ <u>9,352,778</u>	<u>83,301</u>	( <u>51,725</u> )	<u>9,384,354</u>

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 3 regarding electricity, water, and related services furnished to the City without charge.

Note 3 – Donated Electricity and Water

The municipal parks, city hall, and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service, and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2014, services donated to the City totaled \$214,471 and \$85,077 for the Electric and Water Funds, respectively. No revenue or expense has been recognized in the financial statements for these amounts.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 4 – Cash and Pooled Investments

The Municipal Utilities' deposits at June 30, 2014 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 Municipal Utilities is 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.

Certificates of deposit are carried at historical cost.

Note 5 – Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual covered salary and the Utilities is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$164,487, \$150,071, and \$142,146, respectively, equal to the required contributions for each year.

Note 6 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$4,647,559 which represents 98.5% of total kilowatt hours generated and purchased.

Note 7 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and has been computed based on rates of pay in effect at June 30, 2014.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2014. This amount based on June 30, 2014 wages and salaries was \$127,772.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 7 – Compensated Absences (Continued)

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement or death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The liability for employee sick leave is reported in the Combining Statement of Net Position only for employees who have retired. As of June 30, 2014, there was no liability for sick leave accrued.

The maximum contingent liability for employee sick leave accruals at June 30, 2014 is approximately \$210,000.

Note 8 – Unrestricted Net Position Designated by the Board

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. As of June 30, 2014 the amounts that are board designated are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Designated Net Position</u>
Electric Fund	Light Improvement	\$ 768,347
Water Fund	Water Improvement	619,028
Electric Fund	Light Contingency	<u>633,703</u>
Total board designated net position		\$ <u>2,021,078</u>

Note 9 – Allowance for Doubtful Accounts

As of June 30, 2014, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,225 and \$975, respectively.

Note 10 – Risk Management

The Utilities is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three years.

The Utilities changed to a partially self funded health insurance plan effective July 1, 2012 and maintains a risk management account for the risks related to the plan. For individual coverage, the employee pays the first \$500 of the annual deductible and the Utilities pays the remaining \$1,500. For family coverage, the employee pays the first \$1,000 of the annual deductible and the Utilities pays the remaining \$3,000.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 10 – Risk Management (Continued)

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. The estimate is based on a percentage of claims unpaid at year end considering the Utilities claims payment history. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims and IBNR, beginning of year	\$	3
Current year costs including IBNR		13,318
Claims paid		(12,221)
Unpaid claims and IBNR, end of year	\$	<u>1,100</u>

Note 11 – Notes Payable

The Utilities issued electric revenue bonds in an aggregate principal amount of \$3,600,000 dated May 20, 2009 for the purpose of paying costs of the refunding of the outstanding electric revenue bonds dated May 1, 2001. The bonds bear interest of 3.45%, require annual principal payments, and semiannual interest payments. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into an electric revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/12<sup>th</sup> of the next principal payment and 1/6<sup>th</sup> of the next interest payment into an electric sinking account.
3. Monthly transfers equal to 100 percent of the amount required to be deposited in the electric sinking account; provided, however, that when the amount on deposit in the reserve account shall be not less than the reserve fund requirement, no further deposits shall be made into the reserve account except to maintain such level, and when the amount on deposit in the reserve account is greater than the balance required above, such additional amounts shall be withdrawn and paid into the electric revenue account. The reserve fund requirement is the lesser of the maximum annual amount of principal and interest coming due on the note, 10% of the stated principal of the note or 125% of the average annual principal and interest coming due on the note.

The Utilities issued water revenue bonds in an aggregate amount of \$2,950,000 dated April 2, 2012 for the purpose of paying costs of the refunding of the outstanding water revenue capital loan notes, series 1999. The bonds bear interest of 1.60% and require semiannual principal and interest payments. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into a water revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/6<sup>th</sup> of the next principal payment and 1/6<sup>th</sup> of the next interest payment into a water sinking account.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 11 – Notes Payable (Continued)

During the year ended June 30, 2014, the Utilities was in compliance with the revenue note provisions.

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

Year Ending <u>June 30,</u>	<u>Electric Revenue Notes</u>			<u>Water Revenue Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 505,000	45,367	550,367	373,000	33,552	406,552
2016	500,000	27,945	527,945	380,000	27,584	407,584
2017	310,000	10,695	320,695	385,000	21,464	406,464
2018	-	-	-	390,000	15,264	405,264
2019	-	-	-	400,000	8,944	408,944
2020	-	-	-	<u>259,000</u>	<u>2,072</u>	<u>261,072</u>
	\$ <u>1,315,000</u>	<u>84,007</u>	<u>1,399,007</u>	<u>2,187,000</u>	<u>108,880</u>	<u>2,295,880</u>

Note 12 – Capital Lease

The Utilities leases certain equipment under a capital lease. The economic substance of the lease is that the Utilities is financing the acquisition of the equipment through the lease, and accordingly it has been recorded in the Utilities' assets and liabilities. Amortization of equipment held under the capital lease is included with depreciation expense. The gross value of the leased equipment is \$157,487 and at June 30, 2014 accumulated depreciation on the equipment was \$29,529.

Annual capital lease payments to maturity are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 39,151	2,385	41,536
2016	<u>40,326</u>	<u>1,210</u>	<u>41,536</u>
	\$ <u>79,477</u>	<u>3,595</u>	<u>83,072</u>

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2014

Note 13 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	<u>Electric Revenue Notes</u>	<u>Water Revenue Notes</u>	<u>Capital Lease</u>	<u>Total</u>
Balance beginning of year	\$ 1,805,000	2,553,000	117,487	4,475,487
Increases	-	-	-	-
Decreases	<u>490,000</u>	<u>366,000</u>	<u>38,010</u>	<u>894,010</u>
Balance end of year	\$ <u>1,315,000</u>	<u>2,187,000</u>	<u>79,477</u>	<u>3,581,477</u>
Due within one year	\$ <u>505,000</u>	<u>373,000</u>	<u>39,151</u>	<u>917,151</u>

Note 14 – Related Party Transactions

The Utilities had business transactions between the Utilities and employees and relatives of Utility employees, totaling \$6,039 during the year ended June 30, 2014.

Note 15 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2014 was \$100,000.

Note 16 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Water	\$ <u>105,134</u>

This balance results from cash being transferred from the electric fund to the water fund to cover amounts billed for water services prior to the billed amounts being received.

Note 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 the fiscal year ending June 30, 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 Combining Statement of Net Position is expected to include a significant liability for the Utilities' proportionate share of the employee pension plan.

## Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis)  
Required Supplementary Information  
Year Ended June 30, 2014

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts	\$ 11,072,971	10,589,800	11,250,297	(177,326)
Disbursements	10,188,842	10,315,896	10,511,207	322,365
Net	884,129	273,904	739,090	145,039
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	3,033,533	3,033,533	3,033,533	-
Ending balances	\$ 3,817,662	3,207,437	3,672,623	145,039

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2014

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 11,072,971	(75,311)	10,997,660
Expenditures / expenses	10,188,842	(473,531)	9,715,311
Net	884,129	398,220	1,282,349
Other financing sources, net	(100,000)	-	(100,000)
Beginning net position	3,033,533	14,652,526	17,686,059
Ending net position	\$ 3,817,662	15,050,746	18,868,408

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2014

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. One of the nine functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$195,311. These budget amendments are reflected in the final budgeted amounts.

## Supplementary Information

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Unaudited Comparative Operating Statistics**

	Year Ended June 30,		
	2014	2013	2012
Number of customers served:			
Electricity:			
Residential	3,222	3,232	3,226
Commercial	797	785	789
Electric heat	49	54	64
Security lights	113	117	116
Commercial demand	34	34	34
Steam	-	-	-
Water	3,715	3,702	3,677
Kilowatt hours:			
Number of kilowatt hours purchased	82,414,763	79,482,402	78,321,147
Number of kilowatt hours produced	1,222,941	1,066,472	1,014,317
	83,637,704	80,548,874	79,335,464
Number of kilowatt hours sold	72,845,356	71,589,039	69,432,802
% of kilowatt hours sold to total produced and purchased	87.10%	88.88%	87.52%
Number of kilowatt hours for export	454,247	531,865	561,717
Number of kilowatt hours for internal use	4,300,759	4,291,653	4,230,644
Number of kilowatt hours donated to city	2,367,746	2,331,454	2,319,775
	7,122,752	7,154,972	7,112,136
Gallons:			
Number of gallons pumped	613,543,000	635,711,000	613,883,000
Number of gallons billed	413,038,483	436,112,864	427,489,140
% of gallons billed to total pumped	67.32%	68.60%	69.64%
Number of gallons for internal use	106,200	147,945	130,500
Number of gallons donated to city	2,523,090	2,175,046	2,928,561
	2,629,290	2,322,991	3,059,061

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not tested by the auditor.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Unaudited Comparative Operating Statistics

Year Ended June 30,			
2011	2010	2009	2008
3,224	3,192	3,166	3,193
794	817	823	789
70	74	76	85
113	116	120	125
30	30	30	30
-	1	1	1
3,677	3,667	3,666	3,653
78,364,471	77,027,608	79,467,625	82,403,813
982,739	379,933	2,977,414	9,697,764
79,347,210	77,407,541	82,445,039	92,101,577
70,533,023	67,546,011	70,015,683	73,696,416
88.89%	87.26%	84.92%	80.02%
305,603	161,778	70,643	4,324,914
4,724,157	4,280,387	4,244,158	4,183,565
2,841,483	2,955,426	3,006,871	2,949,411
7,871,243	7,397,591	7,321,672	11,457,890
585,919,000	598,517,000	571,562,000	564,416,000
410,598,689	403,845,395	405,198,141	432,257,918
70.08%	67.47%	70.89%	76.58%
1,765,900	2,640,675	1,796,175	1,918,675
2,055,455	2,376,125	2,751,678	2,792,643
3,821,355	5,016,800	4,547,853	4,711,318

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail  
June 30, 2014

	Electric	Water	Total
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 594,247	81,511	675,758
Salaries and wages	99,606	49,600	149,206
Payroll and withholding taxes	62,402	-	62,402
Sales tax payable	19,311	-	19,311
Sewer and trash payable	99,579	-	99,579
 Total	 \$ 875,145	 131,111	 1,006,256

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)  
June 30, 2014

		Assets				
		Balance		Trades	Balance	Estimated
		June 30,	Acquisitions	and	June 30,	Life
		2013	(Eliminations)	(Adjustments)	2014	In Years
Property and equipment:						
Electric Fund:						
Land improvement	\$	41,003	-	-	41,003	15
Buildings		1,029,072	51,638	-	1,080,710	30
Generating equipment		12,043,500	-	-	12,043,500	10-30
Distribution equipment		8,353,133	41,382	46,614	8,441,129	30
Construction in progress		46,614	183,732	(46,614)	183,732	
Machinery and equipment		1,010,224	70,127	(11,823)	1,068,528	8-10
Transportation equipment		150,727	-	-	150,727	5
Office furniture and fixtures		204,641	4,762	-	209,403	5-10
Consultant services		1,128,158	-	-	1,128,158	5
Steam supply line		42,667	-	-	42,667	10-30
Computer		335,493	-	-	335,493	3-8
Leasehold improvements		22,703	-	-	22,703	5
Total	\$	<u>24,407,935</u>	<u>351,641</u>	<u>(11,823)</u>	<u>24,747,753</u>	

\* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)  
June 30, 2014

Accumulated Depreciation/Amortization					
Balance June 30, 2013	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2014	Depreciated Cost June 30, 2014	
\$ 28,859	1,157	-	30,016	10,987	
843,350	13,338	-	856,688	224,022	
6,343,079	335,789	-	6,678,868	5,364,632	
6,237,600	217,237	-	6,454,837	1,986,292	
-	-	-	-	183,732	
747,942	49,813	(11,823)	785,932	282,596	
150,727	-	-	150,727	-	
181,016	6,676	-	187,692	21,711	
1,128,158	-	-	1,128,158	-	
42,667	-	-	42,667	-	
310,752	9,485	-	320,237	15,256	
22,703	-	-	22,703	-	
\$ 16,036,853	633,495	(11,823)	16,658,525	8,089,228	

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)  
June 30, 2014

	Assets				
	Balance June 30, 2013	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2014	Estimated Life In Years
Property and equipment:					
Water Fund:					
Buildings	\$ 1,433,026	6,933	-	1,439,959	10-30
Edr treatment plant	6,385,117	233,791	-	6,618,908	40
Pumping and filtering equipment	1,385,678	169,879	-	1,555,557	25-40
Distribution system	5,722,943	53,420	51,725	5,828,088	40
Construction in progress	51,725	-	(51,725)	-	
Water tower	1,592,798	-	-	1,592,798	21-40
Machinery and equipment	791,885	3,399	-	795,284	5-10
Land	131,975	-	-	131,975	
Consultant services	882,415	2,889	-	885,304	5
Furniture and fixtures	97,897	19,586	-	117,483	10
Total	\$ <u>18,475,459</u>	<u>489,897</u>	<u>-</u>	<u>18,965,356</u>	

\* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)  
June 30, 2014

Accumulated Depreciation/Amortization				
Balance June 30, 2013	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2014	Depreciated Cost June 30, 2014
\$ 1,038,561	29,357	-	1,067,918	372,041
2,179,004	177,225	-	2,356,229	4,262,679
775,600	32,442	-	808,042	747,515
2,719,737	129,445	-	2,849,182	2,978,906
-	-	-	-	-
791,205	39,961	-	831,166	761,632
675,166	40,591	-	715,757	79,527
-	-	-	-	131,975
871,057	3,809	-	874,866	10,438
72,351	5,491	-	77,842	39,641
\$ 9,122,681	458,321	-	9,581,002	9,384,354

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail  
June 30, 2014

	Actual	Operating Budget
Operating expenses:		
Electric Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 36,864	36,050
Power plant:		
Fuel, coal and oil	174,757	181,579
Purchased power	4,647,559	4,557,290
Production:		
Labor	253,420	249,490
Chemicals	1,108	6,500
Maintenance:		
Labor	40,313	21,909
Supplies	13,722	15,000
Other:		
Meal allowance	16	50
Heat and light expense	30,544	30,000
Miscellaneous	2,838	3,203
Depreciation	347,517	340,000
Freight	38	50
Miscellaneous contracted service	169,889	186,000
Permits	40	1,100
Repairs	4,174	15,000
Insurance	55,431	61,250
Education and training	18	200
Total power, pumping and treatment plant	\$ 5,778,248	5,704,671

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2014

	Actual	Operating Budget
Operating expenses:		
Electric Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 36,864	36,050
Maintenance of line:		
Labor	240,494	240,509
Supplies	84,470	36,000
Maintenance of park and street:		
Lighting:		
Labor	27,824	8,169
Supplies	5,746	3,500
Maintenance of meters:		
Labor	15,860	24,271
Supplies	21,265	17,500
Removing and resetting meters	43,626	40,451
Other:		
Depreciation	276,493	266,500
Vehicle supplies	3,369	800
Vehicle repair	13,828	4,000
Mileage	193	150
Lodging	615	1,000
Meals allowance	149	150
Freight	115	50
Miscellaneous contracted services	27,155	21,000
Repairs	5,190	1,500
Insurance	55,431	61,250
Tools	3,846	5,000
Miscellaneous	9,104	1,394
Books and instructional materials	517	600
Education and training	1,395	3,000
	\$ 873,549	772,844
Total transmission and distribution		

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2014

	Actual	Operating Budget
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 37,623	37,044
Maintenance of pumping equipment:		
Labor	283,675	306,233
Supplies	92,474	92,000
Outside analytical services	2,441	2,000
Pumping station expense	2,319	5,000
Insurance	50,304	62,300
Chemicals	87,630	105,000
Depreciation	244,224	245,000
Other pumping and treatment expenses:		
Permits	919	1,300
Education and training	1,016	1,300
Freight	-	200
Miscellaneous	2,549	879
Mileage	-	500
Lodging	257	1,500
Meal allowance	237	200
Miscellaneous contracted services	2,884	15,000
Repairs	8,513	3,500
Vehicle repairs and supplies	1,560	1,500
Total pumping and treatment plant	\$ 818,625	880,456

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2014

	Actual	Operating Budget
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 37,623	37,043
Maintenance of mains:		
Labor	200,065	197,280
Supplies	29,096	41,000
Maintenance of meters:		
Labor	8,225	13,587
Supplies	31,833	29,000
Removing and resetting meters	106,782	73,172
Maintenance of hydrants:		
Labor	13,548	14,342
Supplies	242	10,500
Other transmission and distribution:		
Vehicle expense	4,602	7,000
Depreciation	214,097	215,000
Permits	266	1,000
Education and training	1,140	1,200
Miscellaneous	3,345	6,182
Mileage	49	500
Lodging	1,097	800
Meal allowance	348	500
Freight	38	100
Miscellaneous contracted services	19,271	10,500
Repairs	2,572	1,500
Vehicle repairs	3,385	3,500
Tools	5,057	6,000
Analytical service	-	500
Insurance	50,304	62,300
	\$ 732,985	732,506
Total transmission and distribution	\$ 732,985	732,506

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2014

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Electric and Water Funds:		
General and administrative:		
Education and training	\$ 1,101	1,200
Advertising	3,220	3,000
Repairs	1,115	750
Business meals	357	500
Administrative salaries	182,343	179,619
Administrative supplies	8,568	8,000
Trustee salaries	8,608	7,200
Accounting and collecting labor	211,910	195,360
Computer maintenance and supplies	28,561	28,650
Maintenance agreements	13,740	11,500
Bank charges	11,837	7,500
Courtesy	1,850	2,000
Insurance	22,421	23,250
Dues, assessments and subscriptions	33,548	31,000
Meter reading wages	59,915	69,110
Meter reading supplies	102	200
Provision for doubtful accounts	43,256	45,000
Printing	3,645	5,000
First aid supplies	323	500
Postage	25,834	26,150
Telephone	13,828	13,200
Contractual services	14,901	15,000
Professional fees	22,375	27,625
Payroll tax expense	136,221	136,649
Pension expense (IPERS)	164,487	159,513
Group insurance	273,204	304,525
Mileage	1,802	2,000
Transportation and vehicle expense	33,741	41,000
Eco@Home	32,569	20,000

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2014

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	16,146	12,000
Safety program	2,652	3,300
Miscellaneous	3,136	2,999
Lodging	1,222	1,000
Tools	10,112	-
Drug testing	853	1,000
Economic development	10,000	10,000
Depreciation	9,485	10,500
Total general and administrative	\$ 1,408,988	1,405,800
Allocated as follows:		
Electric Fund	\$ 1,144,901	
Water Fund	264,087	
Total as above	\$ 1,408,988	

\* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities  
June 30, 2014

Year Ending June 30,	Electric Revenue Note Issued May 20, 2009		Water Revenue Note Issued April 2, 2012	
	Interest Rate	Amount	Interest Rate	Amount
2015	3.45 %	\$ 505,000	1.60 %	\$ 373,000
2016	3.45	500,000	1.60	380,000
2017	3.45	310,000	1.60	385,000
2018	-	-	1.60	390,000
2019	-	-	1.60	400,000
2020	-	-	1.60	259,000
Total		\$ <u>1,315,000</u>		\$ <u>2,187,000</u>

See accompanying independent auditors' report.

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(319) 753-9877  
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Independent Auditors' 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  
Mt. Pleasant Municipal Utilities  
Mt. Pleasant, Iowa

We have audited, in accordance with the 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, the financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the Mt. Pleasant Municipal Utilities' basic financial statements, and have issued our report thereon dated October 06, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mt. Pleasant Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are 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 Mt. Pleasant Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

*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 a material misstatement of Mt. Pleasant Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-14 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 deficiency described in Part II of the accompanying Schedule of Findings as item II-B-14 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mt. Pleasant Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2014 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.

### **Mt. Pleasant Municipal Utilities' Response to Findings**

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Mt. Pleasant Municipal Utilities' 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mt. Pleasant Municipal Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*T&T CPAs and Advisors, P.C.*

Mt. Pleasant, Iowa  
October 06, 2014

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings  
Year Ended June 30, 2014

Part I: Summary of the Independent Auditors' Results:

1. A modified opinion was issued on the financial statements because Mt. Pleasant Municipal Utilities does not have an accurate listing of property and equipment.
2. A significant deficiency and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-14 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-14 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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)  
Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements (Continued):

Instances of Non-Compliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-14 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2014 were within the budgeted amount.

III-B-14 Questionable Expenditures – We noted no expenditures that were questionable costs.

III-C-14 Travel Expense – We noted no expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees.

III-D-14 Business Transactions – Business transactions between the Utilities and employees and relatives of Utilities' employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and software maintenance	\$ 4,755
Double D Pest Control owner Darren Davisson, employee of the Utilities	Pest control supplies	\$ 1,171
Brian Payne brother of employee	Thaw frozen water services	\$ 1,300
Washington Electric Service owners Eugene and Deidre Zehr, father and mother-in-law of employee	Electrical supplies	\$ 1,724
Donna Stott wife of employee	Cookies for Boy Scout tour	\$ 51
Reynolds Motors Owner Earl Reynolds father-in-law of employee	Sold truck	\$ 2,962

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)  
Year Ended June 30, 2014

Part III: Other Findings Related to Statutory Reporting (Continued):

III-D-14 Business Transactions (Continued)

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Double D Pest Control, Brian Payne, and Donna Stott do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory, Washington Electric Service, and Reynolds Motors may represent a conflict of interest as defined in Chapter 362.5(3)(j) of the Code of Iowa.

Recommendation – The Municipal Utilities should consult legal counsel to determine the disposition of this matter.

Response – We will consider consulting legal counsel.

Conclusion – Response accepted.

III-E-14 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-14 Utility Board Minutes – The Utilities notified us in January 2014 that certain warrants related to the Utilities' health insurance plan were not approved in the board minutes for the entire year. We noted no other transactions that we believe should have been approved in the board minutes but were not.

Recommendation – The Municipal Utilities should ensure that warrants from all accounts are approved at the monthly board meetings.

Response – The board began approving the warrants related to the Utilities' health insurance plan at its January 2014 meeting. Going forward, warrants for all accounts will be reviewed and approved in the monthly minutes.

Conclusion – Response accepted.

III-G-14 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

III-H-14 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Staff

This audit was performed by:

Courtney De Ronde, CPA, Principal  
Glen Swanson, CPA, Manager  
Drew Kirkpatrick, CPA, Senior Staff  
Dan Montgomery, Staff  
Dillan Hamilton, Staff