

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
Maquoketa, Iowa

FINANCIAL STATEMENTS
December 31, 2013

TABLE OF CONTENTS

UTILITY BOARD OF TRUSTEES.....1
INDEPENDENT AUDITOR’S REPORT2
MANAGEMENT’S DISCUSSION AND ANALYSIS4
BASIC FINANCIAL STATEMENTS10

Exhibit

Government-wide Financial Statement:
Statement of Cash Receipts, Disbursements,
and Changes in Cash BalancesA11

Proprietary Fund Financial Statement:
Statement of Cash Receipts, Disbursements,
and Changes in Cash BalancesB12

Notes to Financial Statements.....13

REQUIRED SUPPLEMENTAL INFORMATION18

Comparison of Receipts, Disbursements, and
Changes in Cash Balances - Actual to Budget.....19

Notes to Required Supplemental Information -
Budgetary Reporting.....20

OTHER SUPPLEMENTAL INFORMATION21

Schedule

Statement of Cash Receipts, Disbursements, and
Changes in Cash Balances - Nonmajor Enterprise Funds122

Combining Schedule of Cash Receipts and Disbursements -
General Operating Fund.....223

Schedule of Disbursements - Operating Account.....324

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***.....26

SCHEDULE OF FINDINGS AND RESPONSES28

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
UTILITY BOARD OF TRUSTEES
December 31, 2013**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kelvin Sohl	Vice-Chairperson	December 2013
David Knoebel	Board Member	December 2015
Caroline Bybee	Chairperson	December 2015
Dawn Paul	Secretary	December 2017
Ronald Snell	Board Member	December 2013

INDEPENDENT AUDITOR'S REPORT

Utility Board of Trustees
Maquoketa Municipal Electric Utility
Maquoketa, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility, a component unit of the City of Maquoketa, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Utility's 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 the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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 of 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 cash basis financial position of the business type activities, each major fund, and

December 31, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion was not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Maquoketa Municipal Electric Utility's 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 eight years ended December 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, 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.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and on page 20 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 April 4, 2014 on our consideration of Maquoketa Municipal Electric Utility's internal control over financial reporting and on 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 the audit performed in accordance with *Government Auditing Standards* in considering Maquoketa Municipal Electric Utility's internal control over financial reporting and compliance.

Miner, Gilroy and Meade, CPA PC

Maquoketa, Iowa
April 4, 2014

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

I. INTRODUCTION

This management discussion and analysis (MD&A) of Maquoketa Municipal Electric Utility's (MMEU) financial performance provides an overview of MMEU's financial activities for the fiscal year ending December 31, 2013. The information in this MD&A should be considered in conjunction with the financial statements that follow this section.

II. OVERVIEW OF BUSINESS

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

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

III. GENERAL OVERVIEW OF UTILITY OPERATIONS

Governance of MMEU is now vested in a five-member Board appointed by the Mayor of Maquoketa with approval of the City Council. Members of the board of Trustees serve for six-year staggered terms. The Board has complete control of MMEU management and employs 13 full-time employees. MMEU's administrative office is located at City Hall.

MMEU has expanded over the years and currently provides electric service to virtually all parts of Maquoketa and some rural areas to the south of Maquoketa. MMEU presently serves approximately 2,824 residential customers, 663 commercial customers, and 19 industrial customers.

MMEU owns distribution lines and transmission lines. MMEU owns and operates two power plants. Plant 1, or the original plant built in 1919, is on the north side of the City, and presently has the capacity to generate 18,534 KW of power. Plant 2 was built in the City's South Industrial Park along U.S. Highway 61 on the City's south side. Plant 2 has the capacity to generate 5,000 KW of power. The generating units at Plant 1 can operate on either diesel fuel or natural gas, and the units at Plant 2 operate on diesel fuel only. Plants 1 and 2 generated 125,000 kWh of power in 2013 or about 0.02% of the total power needs of the City.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

When diesel fuel prices substantially increased in the 1970's, it became more cost effective for the City to purchase electric power at a wholesale rate from private companies that operated coal-fired and nuclear power plants. The City also joined a consortium of other municipally owned electric utilities known as the Resale Power Group of Iowa (R.P.G.I.) in the 1970's. The R.P.G.I. negotiates the contracts for wholesale electric power from private electric companies on behalf of its member utilities. MMEU signed a five-year agreement for the purchase of wholesale electric power with the R.P.G.I. in late 2003, which became effective on January 1, 2004. This contract ended December 31, 2008. MMEU has a contract with WPPI for wholesale electric power. In 2013, MMEU purchased 76,872,021 kWh or 99.98% of its power needs from WPPI.

IV. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

V. MMEU/CITY AGREEMENTS

Although MMEU operates as an independent department of the City of Maquoketa, there is a written cooperative agreement between the City and MMEU that defines shared services and joint efforts. MMEU no longer provides water meter reading services to the City for \$0.42 per month per meter.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

VI. MMEU BUDGET AND RATES

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

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

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

Sales by type of customer account are as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,824	23,833,550
Commercial SGS	663	23,129,660
Power LGS	19	24,243,260
Security Lights	329	582,003

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

VII. FINANCIAL HIGHLIGHTS

MMEU's total revenues increased from \$9,538,648 in 2012 to \$9,584,427 in 2013, an increase of 0.48%. The increase in MMEU revenues were due to WPPI Shared Savings Loan Funds and IAMU Grant for the AMI system totaling \$188,662 and reduction in sale of power.

MMEU's total disbursements decreased from \$12,033,112 in 2012 to \$9,281,483 in 2013, an decrease of \$2,751,629. The decrease in MMEU disbursements is due mainly to the payoff of the 2008 Bond Issue in the prior year. There were no major improvement projects completed during 2013.

VIII. PROGRAM REVENUES

MMEU generated revenues from the following sources in 2013 and 2012:

	<u>2013</u>	<u>2012</u>
1. Charges for Services:		
Residential	\$ 2,964,671	\$ 2,973,553
Commercial	2,648,170	2,642,051
Power sales	2,559,100	2,503,372
Capacity payments	695,631	781,809
Security lights	70,987	74,234
Sales tax	<u>258,083</u>	<u>264,454</u>
	9,196,642	9,239,473
2. Use of Money/Property	46,576	67,263
3. Miscellaneous	152,547	231,912
4. Other Financing Sources (Uses)	<u>188,662</u>	<u>-</u>
Total Revenues	<u>\$ 9,584,427</u>	<u>\$ 9,538,648</u>

IX. PROGRAM EXPENSES

A comparison of MMEU 2013 and 2012 disbursements is as follows:

	<u>2013</u>	<u>2012</u>
General Operating	\$ 9,281,483	\$ 8,771,649
Debt Service	<u>-</u>	<u>3,261,463</u>
Total Expenses	<u>\$ 9,281,483</u>	<u>\$ 12,033,112</u>

The \$2,751,629 decrease is due to the payoff of the 2008 Bond Issue in the prior year.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

X. MMEU CASH BALANCES OR ASSETS

MMEU operates on a cash basis accounting system using three funds. Almost all revenues are credited and expenses paid through the General Operating Fund. A comparison of the cash balances in the MMEU funds are as follows:

<u>Fund</u>	<u>Balance 12/31/2013</u>	<u>Balance 12/31/2012</u>
1. General Operating	\$ 3,901,629	\$ 3,597,436
2. Electric Surplus	177,510	174,935
3. Customer Deposits	<u>72,051</u>	<u>75,875</u>
Total	<u>\$ 4,151,190</u>	<u>\$ 3,848,246</u>

The General Operating Fund is divided into five accounts.

<u>Account</u>	<u>Balance 12/31/2013</u>	<u>Balance 12/31/2012</u>
1. Operating Account	\$ 3,503,534	\$ 3,221,170
2. Insurance Account	68,694	68,353
3. Vehicle Reserve - Distribution	283,678	282,190
4. Economic Development	20,000	-
5. Heavy Equipment	<u>25,723</u>	<u>25,723</u>
Total	<u>\$ 3,901,629</u>	<u>\$ 3,597,436</u>

XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES

	<u>2013</u>	<u>2012</u>
Starting Cash Balance – All Funds	\$ 3,848,246	\$ 6,342,710
Total Revenues	9,584,427	9,538,648
Total Expenses	<u>9,281,483</u>	<u>12,033,112</u>
Ending Cash Balance – All Funds	<u>\$ 4,151,190</u>	<u>\$ 3,848,246</u>

XII. SIGNIFICANT MMEU SYSTEM & EQUIPMENT IMPROVEMENTS

MMEU completed the following system improvement project in 2013:

- Continued work on distribution lines update (4160 KV upgrade to 12470 KV)
- Started the AMI Metering Project

XIII. ANALYSIS OF OVERALL FINANCIAL POSITION

MMEU's overall financial position increased by \$302,944 during 2013.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

XIV. ANALYSIS OF BALANCES AND TRANSACTIONS

The excess of receipts over disbursements was due to Administration and Power Plan Budgets being underspent.

XV. ANALYSIS OF VARIATIONS BETWEEN BUDGET AND ACTUAL AMOUNTS

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

	<u>Budget</u>	<u>Actual</u>
Disbursements	\$9,725,072	\$9,281,483

The difference resulted from variations in the following items:

1. Administration
 - a. Sales tax under budget due to reduced power sales.
2. Power Plant
 - a. Natural Gas and Fuel Oil under budget because of non-generation.
 - b. Lubricants and water treatment because of non-generation.
3. Distribution
 - a. Relatively small budget variance, exceeding budget by 6.87%.

XVI. CURRENT KNOWN FACTS – EFFECT ON FINANCIAL POSITION

There are few known facts, decisions, or conditions that are expected to have some effect on MMEU's financial position. MMEU does not anticipate any significant changes in operating expenses, revenues, or net assets in 2014.

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

MMEU will continue to make improvements to the distribution system.

XVII. FINAL COMMENTS

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

BASIC FINANCIAL STATEMENTS

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2013

	Enterprise
Operating receipts:	
Charges for services	\$ 9,196,642
Use of money and property	46,576
Miscellaneous	152,547
Total operating receipts	9,395,765
Operating disbursements:	
General:	
Power purchased	6,229,758
Employee expense	984,530
Contract labor	40,811
Repairs and maintenance	215,591
Supplies and services	77,500
Capital outlay	72,511
Sales and use tax	266,488
Gas and oil	33,567
Insurance	286,866
Franchise fee	176,144
Economic development	6,000
Energy conservation	22,353
WPPI community relations	4,397
WPPI conservation grants	10,340
Contribution in aid rebates	2,846
WPPI shared savings	49,307
Charitable giving	2,361
Environmental	2,252
AMI project	679,703
Customer deposits	39,341
Utilities	29,246
Miscellaneous	49,571
Total operating disbursements	9,281,483
Excess of receipts over disbursements	114,282
Other financing sources (uses):	
Other financing sources	188,662
Operating transfers in	60,000
Operating transfers out	(60,000)
Total other financing sources (uses)	188,662
Net change in cash balances	302,944
Cash balances beginning of year	3,848,246
Cash balances end of year	\$ 4,151,190
Cash basis net assets	
Unrestricted	\$ 4,151,190

The accompanying notes are an integral part of the financial statements.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2013

	<u>Enterprise Funds</u>		
	<u>General Operating</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:			
Charges for services	\$ 9,196,642	\$ -	\$ 9,196,642
Use of money and property	44,001	2,575	46,576
Miscellaneous	117,030	35,517	152,547
Total operating receipts	<u>9,357,673</u>	<u>38,092</u>	<u>9,395,765</u>
Operating disbursements:			
Power purchased	6,229,758	-	6,229,758
Employee expense	984,530	-	984,530
Contract labor	40,811	-	40,811
Repairs and maintenance	215,591	-	215,591
Supplies and services	77,500	-	77,500
Capital outlay	72,511	-	72,511
Sales and use tax	266,488	-	266,488
Gas and oil	33,567	-	33,567
Insurance	286,866	-	286,866
Franchise fee	176,144	-	176,144
Economic development	6,000	-	6,000
Energy conservation	22,353	-	22,353
WPPI community relations	4,397	-	4,397
WPPI conservation grants	10,340	-	10,340
Contribution in aid rebates	2,846	-	2,846
WPPI shared savings	49,307	-	49,307
Charitable giving	2,361	-	2,361
Environmental	2,252	-	2,252
AMI project	679,703	-	679,703
Customer deposits	-	39,341	39,341
Utilities	29,246	-	29,246
Miscellaneous	49,571	-	49,571
Total operating disbursements	<u>9,242,142</u>	<u>39,341</u>	<u>9,281,483</u>
Excess (deficiency) of receipts over (under) disbursements	<u>115,531</u>	<u>(1,249)</u>	<u>114,282</u>
Other financing sources (uses):			
Other financing sources	188,662	-	188,662
Operating transfers in	60,000	-	60,000
Operating transfers out	(60,000)	-	(60,000)
Total other financing sources (uses)	<u>188,662</u>	<u>-</u>	<u>188,662</u>
Net change in cash balances	304,193	(1,249)	302,944
Cash balance beginning of year	<u>3,597,436</u>	<u>250,810</u>	<u>3,848,246</u>
Cash balance end of year	<u>\$ 3,901,629</u>	<u>\$ 249,561</u>	<u>\$ 4,151,190</u>
Cash basis net assets			
Unrestricted	<u>\$ 3,901,629</u>	<u>\$ 249,561</u>	<u>\$ 4,151,190</u>

The accompanying notes are an integral part of the financial statements.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements include only the funds of the Maquoketa Municipal Electric Utility (the Utility). The Utility has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. Based on the above criteria, the Utility has determined that there are no potential component units which must be included in the Utility's financial statements as of and for the year ended December 31, 2013.

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

B. Basis of Presentation

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

Net assets are reported in two categories:

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

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

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

The Utility reports the following major enterprise funds:

General Operating Fund

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

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Sinking Fund

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

C. Measurement Focus and Basis of Accounting

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

Budgets and Budgetary Accounting

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

NOTE 2 - DEPOSITS AND POOLED INVESTMENTS

The Utility's deposits in banks at December 31, 2013, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by state statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 3 - COMPENSATED ABSENCES

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

<u>Type of Benefit</u>	<u>Amount at December 31, 2013</u>
Vacation	\$ 47,468
Sick leave	231,475
Compensatory time	796
	<u>\$ 279,739</u>

NOTE 4 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended December 31, 2013 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Economic Development	General Operating	\$ 20,000
Vehicle Reserve distribution	Bond Reserve	<u>40,000</u>
Total		<u>\$ 60,000</u>

NOTE 5 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.78% of their annual covered salary through June 30, 2013, and 5.95% of their annual covered salary through December 31, 2013; the Utility is required to contribute 8.67% and 8.93% of the covered payroll for these periods, respectively. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2013, 2012, and 2011, were \$72,576, \$70,886, and \$72,431, respectively, and each equal to the required contributions for each year.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - RELATED PARTY TRANSACTIONS

As stated in Note 1, Maquoketa Municipal Electric Utility is a component unit of the City of Maquoketa, Iowa. The City pays the Utility for electric service to City-owned facilities and also pays the Utility for labor performed by Utility employees on city property. For the year ended December 31, 2013, the utility received the following amounts from the City:

Electric service	\$ 306,966
Labor	<u>19,246</u>
	<u>\$ 326,212</u>

NOTE 8 - SHARED SAVINGS AGREEMENT

The Utility entered into a shared savings funding agreement with WPPI Energy, a Wisconsin municipal electric company (WPPI). WPPI provides money to members to contribute to retail customer's eligible energy efficiency and construction projects. The Utility received \$46,076 from WPPI which they lent to Maquoketa Area Hospitality Group LLC. The Utility acts as a pass through agent. The terms of the loan payable to WPPI is identical with the loan receivable from Maquoketa Area Hospitality Group LLC. The agreement requires monthly payments of \$808 for sixty months; interest is currently at 2%. In the event of default, WPPI and the Utility will share equally any shortfalls.

Note Receivable:	
Maquoketa Area Hospitality Group LLC	<u>\$ 43,653</u>

Note Payable:	
WPPI	<u>\$ 42,846</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Note Receivable	<u>\$ -</u>	<u>\$ 46,076</u>	<u>\$ 2,423</u>	<u>\$ 43,653</u>
Note Payable	<u>\$ -</u>	<u>\$ 46,076</u>	<u>\$ 3,230</u>	<u>\$ 42,846</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Utility was named as a defendant in a civil lawsuit by Central Iowa Power Cooperative. The suit is seeking compensation for prior delivery of energy to the Utility. The Utility is one of many Utility providers that used these delivery systems. The lawsuit has been settled out of Court. The Utility's settlement obligation is \$15,130 per year for five years, totaling \$75,650. The first payment is due in 2014.

NOTE 10 - SUBSEQUENT EVENTS

The Utility has evaluated events and transactions occurring after December 31, 2013 for potential items requiring to be recognized or disclosed in the financial statements. Subsequent events have been evaluated through April 4, 2014, the date of which the financial statements were available to be issued.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
ACTUAL TO BUDGET
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2013

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Variance Final to Actual Favorable (Unfavorable)</u>
		<u>Original Budget</u>	<u>Final Budget</u>	
Receipts:				
Use of money and property	\$ 46,576	\$ 32,781	\$ 32,781	\$ 13,795
Charges for services	9,196,642	8,610,243	8,610,243	586,399
Miscellaneous	152,547	834,430	834,430	(681,883)
Total receipts	<u>9,395,765</u>	<u>9,477,454</u>	<u>9,477,454</u>	<u>(81,689)</u>
Disbursements	<u>9,281,483</u>	<u>9,725,072</u>	<u>9,725,072</u>	<u>443,589</u>
Excess (deficiency) of receipts over (under) disbursements	<u>114,282</u>	<u>(247,618)</u>	<u>(247,618)</u>	<u>361,900</u>
Other financing sources (uses):				
Other financing sources	188,662	435,000	435,000	(246,338)
Operating transfers in	60,000	60,000	60,000	-
Operating transfers out	(60,000)	(60,000)	(60,000)	-
Total other financing sources (uses)	<u>188,662</u>	<u>435,000</u>	<u>435,000</u>	<u>(246,338)</u>
Net change in cash balances	302,944	187,382	187,382	115,562
Cash balance beginning of year	<u>3,848,246</u>	<u>6,480,263</u>	<u>3,875,994</u>	<u>(27,748)</u>
Cash balance end of year	<u>\$ 4,151,190</u>	<u>\$ 6,667,645</u>	<u>\$ 4,063,376</u>	<u>\$ 87,814</u>
Cash basis net assets				
Unrestricted	<u>\$ 4,151,190</u>	<u>\$ 6,667,645</u>	<u>\$ 4,063,376</u>	<u>\$ 87,814</u>

The accompanying notes are an integral part of the financial statements.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION -
BUDGETARY REPORTING
December 31, 2013**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 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. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the permanent Fund and 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 ended December 31, 2013, disbursements did not exceed the amounts budgeted in the business type activities functions.

OTHER SUPPLEMENTAL INFORMATION

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
NONMAJOR ENTERPRISE FUNDS
As of and for the Year Ended December 31, 2013

	<u>Electric Surplus</u>	<u>Customer Deposits</u>	<u>Total</u>
Operating receipts:			
Use of money and property	\$ 2,575	\$ -	\$ 2,575
Miscellaneous	-	35,517	35,517
Total operating receipts	<u>2,575</u>	<u>35,517</u>	<u>38,092</u>
Operating disbursements:			
Customer deposits	-	39,341	39,341
Total disbursements	<u>-</u>	<u>39,341</u>	<u>39,341</u>
Excess (deficiency) of receipts over (under) disbursements	<u>2,575</u>	<u>(3,824)</u>	<u>(1,249)</u>
Other financing sources (uses):			
Other financing sources	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	2,575	(3,824)	(1,249)
Cash balance beginning of year	<u>174,935</u>	<u>75,875</u>	<u>250,810</u>
Cash balance end of year	<u>\$ 177,510</u>	<u>\$ 72,051</u>	<u>\$ 249,561</u>
Cash basis net assets			
Unrestricted	<u>\$ 177,510</u>	<u>\$ 72,051</u>	<u>\$ 249,561</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
GENERAL OPERATING FUND
As of and for the Year Ended December 31, 2013

	Operating Account	Insurance Account	Vehicle Reserve - Distribution	Economic Development	Heavy Equipment Account	Total
Operating receipts:						
Charges for services:						
Residential	\$ 2,964,671	\$ -	\$ -	\$ -	\$ -	\$ 2,964,671
Commercial	2,648,170	-	-	-	-	2,648,170
Security lights	70,987	-	-	-	-	70,987
Capacity payments	695,631	-	-	-	-	695,631
Power sales	2,559,100	-	-	-	-	2,559,100
Sales Tax	258,083	-	-	-	-	258,083
	<u>9,196,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,196,642</u>
Use of money and property:						
Interest on investments	17,185	341	-	-	-	17,526
Miscellaneous	26,475	-	-	-	-	26,475
	<u>43,660</u>	<u>341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,001</u>
Miscellaneous:						
Refunds	7,363	-	-	-	-	7,363
Miscellaneous	109,667	-	-	-	-	109,667
	<u>117,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,030</u>
Total operating receipts	9,357,332	341	-	-	-	9,357,673
Operating disbursements:						
Administration	1,192,428	-	-	-	-	1,192,428
Power plant	6,471,519	-	-	-	-	6,471,519
Distribution	1,539,683	-	38,512	-	-	1,578,195
Total operating disbursements	9,203,630	-	38,512	-	-	9,242,142
Excess (deficiency) of receipts over (under) disbursements	153,702	341	(38,512)	-	-	115,531
Other financing sources (uses):						
Other financing sources - grants, loans, shared savings	188,662	-	-	-	-	188,662
Transfers in (out):						
Operating account	-	-	40,000	20,000	-	60,000
Vehicle reserve - distribution	(40,000)	-	-	-	-	(40,000)
Economic development	(20,000)	-	-	-	-	(20,000)
Heavy equipment account	-	-	-	-	-	-
Total other financing sources (uses)	128,662	-	40,000	20,000	-	188,662
Net change in cash balances	282,364	341	1,488	20,000	-	304,193
Cash balance, beginning of year	3,221,170	68,353	282,190	-	25,723	3,597,436
Cash balance, end of year	\$ 3,503,534	\$ 68,694	\$ 283,678	\$ 20,000	\$ 25,723	\$ 3,901,629

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2013

Administration:

Salaries	\$ 247,378
FICA and IPERS	39,593
Insurance	241,151
Sales and use tax	266,488
Franchise fee	176,144
Materials and repairs	8,138
Postage	14,994
Meeting expense	4,912
Dues	27,948
Office supplies	11,109
Professional fees	27,674
Utilities	6,644
Advertising	811
City Hall shared services	8,785
Energy conservation	22,353
WPPI community relations	4,397
WPPI conservation grants	10,340
Economic development	6,000
Contribution in aid rebates	2,846
WPPI shared savings	49,307
Charitable giving	2,361
Miscellaneous	13,055
Total administration	1,192,428

Power Plant:

Salaries	132,921
FICA and IPERS	21,648
Purchased power	6,229,758
Insurance	45,715
Materials and repairs	14,821
Contract item replacement	112
Supplies	6,144
Utilities	7,045
Natural gas	12,856
Lubricants	499
Total power plant	6,471,519

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
 SCHEDULE OF DISBURSEMENTS
 OPERATING ACCOUNT
 Year Ended December 31, 2013

Distribution:	
Salaries	\$ 466,849
FICA and IPERS	76,141
Contract labor	40,811
Materials and repairs	114,772
Meeting expense	2,733
Supplies	8,794
Utilities	15,557
Gas and oil	20,212
Tools	2,360
Conductor	35,821
Transformers	30,675
4kV System Upgrade	33,999
Environmental	2,252
AMI project	679,703
Meters	9,004
Total distribution	<u>1,539,683</u>
Total disbursements	<u>\$ 9,203,630</u>

**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**

Utility Board of Trustees
Maquoketa Municipal Electric Utility
Maquoketa, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, each major fund, and the aggregate remaining fund information of Maquoketa Municipal Electric Utility, as of and for the year ended December 31, 2013, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated April 4, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Maquoketa Municipal Electric Utility's 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 Maquoketa Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Maquoketa Municipal Electric Utility's 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 Responses, we identified certain deficiencies in internal control over financial reporting 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 Maquoketa Municipal Electric Utility's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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 Responses as item II-A-13 and II-B-13 to be significant deficiencies.

Compliance and Other Matters

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

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

Maquoketa Municipal Electric Utility's Responses to Findings

Maquoketa Municipal Electric Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Maquoketa Municipal Electric Utility's 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 Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's 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 Maquoketa Municipal Electric Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Miner, Gilroy and Meade, CPA PC

Maquoketa, Iowa
April 4, 2014

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) 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.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Financial Statement Preparation

Criteria - A properly designed system of internal control over financial reporting includes the preparation of the entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition - As auditors, we were engaged to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of 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.

Effect - Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause - We recognize that with limited number of office employees, preparation of the financial statements is difficult.

Recommendation - Management should perform a comprehensive review of the financial statements to ensure that the financial statements, including disclosures, are complete and accurate.

Response - The Utility concurs with the recommendations. The Utility will review current internal control policies and procedures and implement additional procedures in the future.

Conclusion - Response accepted.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

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

II-B-13 Segregation of Duties

Criteria - Internal controls should be in place to reduce to a relatively low risk the likelihood a material misstatement to the financial statements could occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition - Currently, there are three individuals with accounting and financial duties. The three individuals handle separate stages of a transaction. However, transaction postings and reconciliations are done by the same person with no formal review process in place.

Effect - As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause - The Utility has a limited number of personnel performing accounting functions.

Recommendation - The Utility should be aware of the lack of segregation of duties and regularly review controls which could be put in place to mitigate the risk that misstatements could occur and not be detected and corrected on a timely basis. We also recommend that the Utility have a member of management or the Board of Trustees review the reconciliations on a monthly basis. The reviewer should then sign and date the reconciliation as an indication of approval.

Response - The Utility concurs with the recommendations. The Utility will review current internal control policies and procedures and implement additional procedures in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

Part III: Other Findings Related to Statutory Reporting:

- III-A-13 Certified Budget - Disbursements during the year ended December 31, 2013 did not exceed amounts budgeted.
- III-B-13 Questionable Disbursements - We noted no disbursements that we believe would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-13 Travel Expense - No disbursements of Utility money for travel expenses of spouses of utility officials or spouses of utility employees were noted.
- III-D-13 Business Transactions - We noted no business transactions between the Utility and Utility officials or employees that appear to represent a conflict of interest.
- 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 ensure that coverage is adequate for current operations.
- III-F-13 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- III-H-13 Revenue Notes - During the year ended December 31, 2013, the Utility did not have any outstanding revenue notes.
- III-I-13 Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.