

SPENCER MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
DECEMBER 31, 2014 AND 2013

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SPENCER MUNICIPAL UTILITIES

OFFICIALS

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
(Before July 2014)		
Dave Hultgren	Chairman	6-30-2014
Alison Simpson	Vice-Chairman	6-30-2017
Sandi Schmidt	Secretary	6-30-2016
Murray Hart	Treasurer	6-30-2019
Dave Cronk	Trustee	6-30-2018
<u>Management</u>		
Steven Pick	General Manager	
Trisha Bruning	Finance Manager	
(After July 2014)		
Dave Cronk	Chairman	6-30-2018
Alison Simpson	Vice-Chairman	6-30-2017
Sandi Schmidt	Secretary	6-30-2016
Murray Hart	Treasurer	6-30-2019
Duane Barber	Trustee	6-30-2020
<u>Management</u>		
Steven Pick	General Manager	
Trisha Bruning	Finance Manager	

SPENCER MUNICIPAL UTILITIES

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA**

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Electric Utility
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Municipal Electric Utility of the City of Spencer, Iowa (the Utility), as of and for the years ended December 31, 2014 and 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 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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2014 and 2013 and the respective changes in financial position and cash flows thereof for the years 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 that the Management's Discussion and Analysis and Funding Progress for the Retiree Health Plan information on pages 4 through 6 and page 25 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, who 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The supplementary information on pages 26 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 3, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Electric Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2014 Financial Highlights

The Utility delivered approximately 157,338,000 kilowatt hours (kWh) of electricity to its retail customers in 2014 compared to approximately 156,777,000 kWh in 2013.

The Utility's net position increased by \$912,953 to \$46,961,631. The primary factors of this increase were due to increased commercial and industrial electric sales, increased ECA (Energy Cost Adjustment) revenue, Rural Economic Development grant funds received and increase to Sales to Other Utilities.

Overview of the Financial Statements

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statements of revenues, expenses and changes in net position report all revenues and expenses incurred during the fiscal year.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current assets	\$10,086,709	\$10,058,801
Noncurrent assets	6,074,381	4,858,885
Capital Assets, net of depreciation	<u>40,646,061</u>	<u>42,886,498</u>
Total Assets	<u>56,807,151</u>	<u>57,804,184</u>
Current Liabilities	2,808,713	3,469,086
Noncurrent Liabilities	60,516	62,773
Bonds Payable	<u>6,976,291</u>	<u>8,223,647</u>
Total Liabilities	<u>9,845,520</u>	<u>11,755,506</u>
Net Investment in Capital Assets	32,424,770	33,457,851
Restricted	2,444,353	2,086,574
Unrestricted	<u>12,092,508</u>	<u>10,504,253</u>
Total Net Position	<u>\$46,961,631</u>	<u>\$46,048,678</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Sales of Electricity	\$11,825,158	\$10,979,841
Other	<u>1,717,434</u>	<u>1,511,851</u>
Total Operating Revenue	<u>13,542,592</u>	<u>12,491,692</u>
Power Supply Costs	8,896,084	8,536,319
Distribution System Maintenance	1,277,613	1,258,033
Depreciation & Amortization	2,615,662	2,599,412
Customer Service & Administration	<u>1,089,648</u>	<u>1,129,830</u>
Total Operating Expenses	<u>13,879,007</u>	<u>13,523,594</u>
Operating (Loss)	(336,415)	(1,031,902)
Interest Income	81,588	57,520
Interest Expense	(201,393)	(215,115)
Other Income (Expense)	<u>1,369,173</u>	<u>1,275,422</u>
Total Non-Operating Revenues	<u>1,249,368</u>	<u>1,117,827</u>
Change in Net Position	\$912,953	\$85,925
Net Position, Beginning of Year	<u>46,048,678</u>	<u>45,962,753</u>
Net Position, End of Year	<u>\$46,961,631</u>	<u>\$46,048,678</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets decreased by approximately \$997,000. The decrease was due to depreciation exceeding assets placed in service. The increase of approximately \$1,200,000 in noncurrent assets was due to investing the 2008 and 2011 Bond Reserve funds in a 36 month CD.

The Utility's gross revenues increased by approximately \$1,051,000 or 8%. Commercial sales increased by 1,217,000 kWh and Industrial sales increased by 99,000 kWh sales in 2014 compared to 2013. This represents an approximate 2% increase and 1% increase, respectively, from 2014 to 2013. In addition, the Industrial rate increased 5% effective with June 2014 usage. The Sales to Other Utilities increased by approximately \$168,000 in 2014 compared to 2013 or 12%. This was mainly due to the revenue generated from selling Walter Scott, Jr. Energy Center Unit 4 excess kWh to NIMECA. The Energy Cost Adjustment (ECA) revenue also increased by approximately \$586,000 in 2014 compared to 2013. The Utility adopted an Energy Cost Adjustment (ECA) for all consumption beginning September 7, 2005. The ECA is calculated monthly and is designed to recoup the additional costs of power supply from the consumer.

Total operating loss generated in 2014 was \$336,415 compared to an operating loss of \$1,031,902 in 2013.

Utility non-operating income (expense) resulted in \$1,249,000 of income, which was an 11% increase from 2013. This was primarily due to \$300,000 Rural Economic Development Loan Grant funds received. These funds will be loaned to the City of Spencer for the new E911 Emergency Communications Center. Resource Conservation rebates were lower in 2014 compared to 2013 by approximately \$160,000. This was primarily due to 3 larger 2013 rebate applications funded which totaled approximately \$104,000. The lieu of tax payments in 2014 increased by approximately \$203,000 due to funding approximately \$140,000 for a residential housing land purchase as well as the annual payments increasing from 2013 due to increased operating sales revenue.

The change in net position increased from \$85,925 in 2013 to \$912,953 in 2014.

Economic Factors

The Utility entered into a contract November 2013 with Dewild, Grant, Reckert & Associates to perform a rate study. The rate study will be utilized to assist in aligning rates with their associated costs. The results of the rate study will be shared with the Board in early 2015 and proposed rate changes will be suggested at that time. The last rate study conducted for the Utility was in 2003.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2nd Avenue East, Suite 1, Spencer, Iowa 51301.

FINANCIAL STATEMENTS

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 2,197,507	\$ 1,161,983
Restricted	474,993	1,354,735
Board Designated	4,361,646	4,362,490
Consumer Deposits	81,376	79,300
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$6,500 and \$6,500)	1,316,153	1,447,338
Unbilled Usage	278,972	293,822
Materials and Supplies Inventory	573,992	566,495
Fuel Inventory	446,203	508,272
Notes Receivable - City of Spencer	25,000	25,000
Prepayments	330,867	259,366
	10,086,709	10,058,801
Capital Assets:		
Land	150,704	150,704
Construction in Progress	190,134	7,251,136
Plant in Service	85,956,500	78,640,090
Accumulated Depreciation	(45,651,277)	(43,155,432)
	40,646,061	42,886,498
Noncurrent Assets		
Noncurrent Investments:		
Board Designated	3,538,354	3,537,510
Restricted	1,984,739	750,445
Notes Receivable - City of Spencer	551,288	570,930
	6,074,381	4,858,885
Total Assets	\$ 56,807,151	\$ 57,804,184

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,158,060	\$ 1,849,908
Payroll and Sales Tax Payable	48,793	34,333
Accrued Payroll and Compensated Absences	255,905	277,739
Accrued Interest Payable	15,379	18,606
Consumer Deposits	81,376	79,300
Unearned Revenue	4,200	4,200
Current Maturities of Long-Term Debt	1,245,000	1,205,000
	2,808,713	3,469,086
Total Current Liabilities		
Noncurrent Liabilities		
Bonds Payable	8,221,291	9,428,647
Less - Current Maturities	(1,245,000)	(1,205,000)
Net OPEB Liability	60,516	62,773
	7,036,807	8,286,420
Total Noncurrent Liabilities		
	9,845,520	11,755,506
Total Liabilities		
NET POSITION		
Net Position		
Net Investment in Capital Assets	32,424,770	33,457,851
Restricted	2,444,353	2,086,574
Unrestricted	12,092,508	10,504,253
	\$ 46,961,631	\$ 46,048,678
Total Net Position		

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Operating Revenues:		
Residential	\$ 4,151,493	\$ 4,154,017
Commercial	5,247,161	4,990,072
Public Authorities	604,725	600,426
Sales for Resale	1,596,384	1,427,739
Energy Cost Adjustment Revenue	1,821,779	1,235,326
Penalties	28,901	25,183
Miscellaneous	92,149	58,929
	13,542,592	12,491,692
Operating Expenses:		
Generation and Transmission		
Neal #4 Fuel and Generation	1,627,068	1,521,732
Walter Scott #4 Fuel and Generation	1,688,270	1,601,656
Purchased Power	5,447,859	5,275,451
Other	132,887	137,480
Distribution	1,277,613	1,258,033
Depreciation and Amortization	2,615,662	2,599,412
Customer Operations	371,182	414,314
General and Administrative	718,466	715,516
	13,879,007	13,523,594
Operating (Loss)	(336,415)	(1,031,902)
Non-Operating Income (Expense):		
Interest Income on Investments	81,588	57,520
Resource Conservation	(142,529)	(302,805)
Economic Development Payment	(110,252)	(85,082)
Leased Facilities	2,033,786	2,124,695
Interest Expense	(201,393)	(215,115)
(Loss) on Plant Retirements	(65,732)	(18,261)
Payment in Lieu of Property Taxes	(646,100)	(443,125)
Grant Revenue	300,000	-
	1,249,368	1,117,827
Change in Net Position	912,953	85,925
Net Position at Beginning of Year	46,048,678	45,962,753
Net Position at End of Year	\$ 46,961,631	\$ 46,048,678

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 13,690,703	\$ 12,589,727
Cash Payments to Suppliers for Goods and Services	(9,675,377)	(9,427,279)
Cash Payments to Employees for Services	(2,306,376)	(1,675,986)
Cash Payments for Resource Conservation	(142,529)	(302,805)
Cash Payments for Economic Development and In Lieu of Property Taxes	(756,352)	(528,207)
Payments Received From Leasing of Facilities	2,033,786	2,124,695
	2,843,855	2,780,145
Net Cash Provided By Operating Activities		
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(438,122)	(5,233,386)
Revenue Bond Principal Repayment	(1,205,000)	(1,165,000)
Proceeds (Expenses) from Sale of Capital Assets	(2,836)	1,070
Interest Paid	(206,975)	(228,267)
	(1,852,933)	(6,625,583)
Net Cash (Used) By Capital and Related Financing Activities		
Cash Flows From Investing Activities:		
Payments Received on Note Receivable -City of Spencer	19,642	242,500
Proceeds From Redemption of Investments	1,000,000	5,847,556
Purchase of Investments	(2,235,138)	(3,287,549)
Interest Received From Investments	81,588	57,520
Proceeds from Grant Revenue	300,000	-
	(833,908)	2,860,027
Net Cash Provided (Used) By Investing Activities		
Net Increase (Decrease) in Cash	157,014	(985,411)
Cash and Cash Equivalents at Beginning of Year	6,958,508	7,943,919
Cash and Cash Equivalents at End of Year	\$ 7,115,522	\$ 6,958,508
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 2,197,507	\$ 1,161,983
Restricted	474,993	1,354,735
Board Designated	4,361,646	4,362,490
Consumer Deposits	81,376	79,300
	\$ 7,115,522	\$ 6,958,508

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (Loss)	\$ (336,415)	\$ (1,031,902)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities		
Depreciation and Amortization	2,615,662	2,599,412
Leased Facilities Income	2,033,786	2,124,695
Contributions Paid for Economic Development	(110,252)	(85,082)
Payment in Lieu of Property Taxes	(646,100)	(443,125)
Payment for Resource Conservation	(142,529)	(302,805)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	131,185	163,078
Unbilled Usage	14,850	(69,908)
Materials and Supplies Inventory	(7,497)	51,350
Fuel Inventory	62,069	49,405
Prepayments	(71,501)	16,394
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(691,848)	(428,161)
Accrued Payroll and Compensated Absences	(7,374)	121,505
Consumer Deposits	2,076	4,365
Deferred Revenue	-	500
Net OPEB Liability	(2,257)	10,424
Total Adjustments	3,180,270	3,812,047
Net Cash Provided By Operating Activities	\$ 2,843,855	\$ 2,780,145

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Electric Utility of the City of Spencer, Iowa (Electric Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Water Utility and the Municipal Communication Utility of the City of Spencer, Iowa, by a five member Board of Trustees.

The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Utility has included all funds. The Utility 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 Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Boards 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. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

The Utility's 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 liability is incurred, regardless of the timing of related cash flows.

The Utility distinguishes 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 the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new electric facilities. In addition, net interest costs on construction debt are capitalized. During 2014 and 2013, the Utility had \$17,252 and \$28,407, respectively, of interest expense that was capitalized from the scrubber construction on George Neal Generating Station Unit No. 4 from 2011 Revenue Bond financing. Construction was substantially complete on the scrubber as of May 2014.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.215% undivided interest in a 654 MW electric generation station known as George Neal Generating Station Unit No. 4. The Electric Utility's 1.215% ownership interest in this plant represents a

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

total investment of \$9,248,949 included in utility plant in service with \$4,552,387 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.14% undivided interest in a 790 MW electric generation station known as Walter Scott, Jr. Energy Center Unit 4, which was placed in service in 2007. The Electric Utility's 1.14% ownership interest in this plant represents a total investment of \$16,183,609 included in utility plant in service with \$3,137,841 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis. Current depreciation expense is approximately 3.05% of the original cost of depreciable electric plant in service. MidAmerican Energy had expected life studies conducted on its plants and based on the results the life was extended from 33 to 40 years.

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	20-40 years
Building and improvements	20 years
Equipment	5 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. Net Position

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

F. Income Taxes

The Electric Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

G. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2014 and 2013, totaled \$278,972 and \$293,822, respectively.

H. Estimates

The preparation of the financial statements in conformity in U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utility's deposits in Banks at December 31, 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 Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

The Utility had investments in Iowa Public Agency Investment Trust which are valued at an amortized cost of \$750,000 in pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk – The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS (Continued)

Investments are recorded at cost which approximates market. Adjustments are made to cost for any premium or discount, which is amortized over the maturity of the investment. Adjustments are also made to account for the change in accrued interest on respective investments.

Reconciliation of the Utility's cash and cash equivalents, current investments and noncurrent investments is as follows:

	2014	2013
Cash and cash equivalents:		
Board designated	\$ 4,361,646	\$ 4,362,490
Consumer Deposits	81,376	79,300
Restricted	474,993	1,354,735
Unrestricted	2,197,507	1,161,983
Total cash and cash equivalents	<u>7,115,522</u>	<u>6,958,508</u>
Noncurrent investments:		
Board designated	3,538,354	3,537,510
Restricted	1,984,739	750,445
Total noncurrent investments	<u>5,523,093</u>	<u>4,287,955</u>
Total cash and cash equivalents and noncurrent investments	<u>\$12,638,615</u>	<u>\$11,246,463</u>

Note 3 - BOARD DESIGNATED FUNDS

The Board of Trustees of the Utility has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net position, are being designated for contingencies such as a natural disaster, and cannot be expended without Board approval.

Assets of the funds as of December 31, 2014 and 2013 are summarized as follows:

	2014	2013
	Replacement and Construction Reserve	Replacement and Construction Reserve
Cash and cash equivalents	<u>\$ 4,361,646</u>	<u>\$ 4,362,490</u>
Noncurrent investments	<u>3,538,354</u>	<u>3,537,510</u>
Total	<u>\$ 7,900,000</u>	<u>\$ 7,900,000</u>

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 150,704	\$ -	\$ -	\$ 150,704
Construction in progress	7,251,136	190,134	(7,251,136)	190,134
Total capital assets not being depreciated	7,401,840	190,134	(7,251,136)	340,838
Capital assets being depreciated:				
Infrastructure	70,251,827	7,281,387	(109,034)	77,424,180
Buildings and improvements	728,875	-	-	728,875
Equipment	7,659,388	202,143	(58,086)	7,803,445
Total capital assets being depreciated	78,640,090	7,483,530	(167,120)	85,956,500
Less accumulated depreciation	43,155,432	2,615,662	(119,817)	45,651,277
Total capital assets being depreciated - net	35,484,658	4,867,868	(47,302)	40,305,223
Net Investment in capital assets	\$42,886,498	\$5,058,002	\$(7,298,438)	\$40,646,061

Capital assets activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 150,704	\$ -	\$ -	\$ 150,704
Construction in progress	4,218,428	3,032,718	(10)	7,251,136
Total capital assets not being depreciated	4,369,132	3,032,718	(10)	7,401,840
Capital assets being depreciated:				
Infrastructure	68,343,519	2,028,096	(119,788)	70,251,827
Buildings and improvements	728,875	-	-	728,875
Equipment	7,513,174	161,460	(15,246)	7,659,388
Total capital assets being depreciated	76,585,568	2,189,556	(135,034)	78,640,090
Less accumulated depreciation	40,682,845	2,599,412	(126,825)	43,155,432
Total capital assets being depreciated - net	35,902,723	(409,858)	(8,209)	35,484,658
Net Investment in capital assets	\$40,271,855	\$2,622,862	\$(8,219)	\$42,886,498

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 4 - CAPITAL ASSETS (Continued)

Reconciliation of Net Investment in Capital Assets:

	2014	2013
Capital Assets (Net of Accumulated)	\$ 40,646,061	\$ 42,886,498
Less: Bonds Payable	(8,221,291)	(9,428,647)
	\$ 32,424,770	\$ 33,457,851

Construction in Progress

The Utility projects included in the 2014 Construction in Progress are \$190,134 for work begun on eleven 2014 projects and one 2013 project.

The Utility projects included in the 2013 Construction in Progress are \$4,594,350 of improvements made to the 520 2nd Ave East project; \$2,656,593 of improvements to the George Neal Generating Station Unit No. 4 and \$193 for work begun on 2013 projects.

Note 5 - TRANSFERS IN LIEU OF PROPERTY TAXES/NOTE RECEIVABLE

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfers approximate 5% of gross sales (excluding the energy cost adjustment), less actual property taxes paid (on the George Neal Generating Station Unit No. 4, on the Walter Scott Jr. Unit No. 4 and 121 E 7th St) and returned to the City of Spencer, Iowa. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

During 2007, the Utility loaned the City \$375,000 to fund the economic development loan to Shine Bros. Corp. The City reimburses the Utility in equal payments of \$2,083 without interest, payable monthly. The balance of this note at December 31, 2014 was \$187,500 and December 31, 2013 was \$212,500.

A loan agreement was effective on July 15, 2009 between Spencer Municipal Utilities and the City of Spencer. The City borrowed \$383,430 for the purposes of loaning to Spencer Industries Foundation, Inc. The funds were used to construct an industrial building. The City is to repay the loan the earlier of the sale or lease of the building or by July 15, 2019. Interest began accruing on the loan July 15, 2014 at a rate of 3%. As of December 31, 2014 the principal balance of the loan was \$383,430 and accrued interest was \$5,358.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 6 – BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2008 revenue bonds	\$ 1,440,000	\$ -	\$ 700,000	\$ 740,000	\$ 740,000
Series 2011 revenue bonds	7,970,000	-	505,000	7,465,000	505,000
Total revenue bonds	<u>\$9,410,000</u>	<u>\$ -</u>	<u>\$1,165,000</u>	<u>\$ 8,205,000</u>	<u>\$1,245,000</u>

Bonds Payable listed on the Statement of Net Position include Unamortized Bond Premiums of \$16,291.

The Series 2008 and 2011 revenue bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds range between 1.5% and 4.6 %. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

	Series 2008		Series 2011	
	Principal	Interest	Principal	Interest
2015	\$ 740,000	\$ 34,040	\$ 505,000	\$ 151,463
2016	-	-	1,080,000	143,888
2017	-	-	1,105,000	127,688
2018	-	-	1,140,000	108,350
2019	-	-	1,170,000	85,550
2020-2021	-	-	2,465,000	91,183
Total	<u>\$ 740,000</u>	<u>\$ 34,040</u>	<u>\$ 7,465,000</u>	<u>\$ 708,122</u>

The bond resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

Revenue Bonds

The Utility has pledged future utility revenue, net of specified operating expenses, to repay outstanding utility revenue bonds. The bonds are payable solely from the utility's net revenues and are payable through 2021. The total principal and interest remaining to be paid on the bonds is \$8,913,122. Principal and interest due for the current year and total combined utilities net revenues were \$1,429,228 and \$1,380,366, respectively.

Restricted Funds

Outstanding Electric Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 6 – BONDS PAYABLE (Continued)

of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2014 the Utility is in compliance with all bond covenant requirements.

At December 31, 2014, the special funds consisted of the following:

	Cash and Cash Equivalents	Current Investments	Noncurrent Investments	Total
Bond Sinking Fund	\$ 111,348	\$ -	\$ -	\$ 111,348
Bond Reserve Fund	17	-	1,233,579	1,233,596
Bond Improvement Fund	-	-	751,160	751,160
Total Special Bond Funds	\$ 111,365	\$ -	\$ 1,984,739	\$ 2,096,104

At December 31, 2013, the special funds consisted of the following:

	Cash and Cash Equivalents	Current Investments	Noncurrent Investments	Total
Bond Sinking Fund	\$ 118,469	\$ -	\$ -	\$ 118,469
Bond Reserve Fund	1,232,440	-	-	1,232,440
Bond Improvement Fund	-	-	750,445	750,445
Total Special Bond Funds	\$ 1,350,909	\$ -	\$ 750,445	\$ 2,101,354

Monthly deposits into two bond sinking funds are required to establish the amount necessary to pay the next installments of principal and interest on the 2008 and 2011 Electric Revenue Bonds. Bond reserve funds for the 2008 and 2011 Electric Revenue Bonds equaled the required balance at December 31, 2014; therefore monthly deposits into the fund are not currently required. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

The bond improvement fund balance at December 31, 2014 equaled the minimum balance required; therefore monthly deposits into the fund are not currently required. These funds are to be used first for principal and interest payments when insufficient funds are available in the sinking and reserve funds and second for extraordinary unbudgeted maintenance expenses or system repairs, renewals and replacements.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 7 - RATE MATTERS

Rates of the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Note 8 - NUMBER OF METER CONNECTIONS

The number of meter connections totaled 6,179 and 6,170 at December 31, 2014 and 2013, respectively.

Note 9 - LEASES

The Utility leases electrical generation capacity of a jet turbine generator, its share of the Neal 4 plant, its share of the Wisdom 2 plant, and its share of the Walter Scott 4 plant under operating leases to other utilities or their associations. The revenues from such leases are classified as leased facilities. The Utility's investment in these facilities is included in capital assets in service and is set forth as follows:

	<u>2014</u>	<u>2013</u>
Jet turbine generator	\$ 3,269,202	\$ 3,269,202
Neal 4 plant	9,248,949	9,083,364
Wisdom 2 plant	2,315,377	2,315,377
Walter Scott 4 plant	<u>16,183,609</u>	<u>16,006,462</u>
Total	31,017,137	30,674,405
Less accumulated depreciation	<u>(10,934,750)</u>	<u>(10,242,785)</u>
Net investment	<u>\$ 20,082,387</u>	<u>\$ 20,431,620</u>

The lease of the Neal 4, Walter Scott 4, and Wisdom 2 plant are long-term commitments based on capacity. The amount is determined by formula based on usage and totaled \$828, \$1,080,439 and \$172,073, respectively, in 2014. The leases of the jet turbine generator are both by non-cancelable lease and a variable lease determined by capacity and totaled \$101,664 in 2014 and \$95,828 in 2013. The following is a schedule of future minimum rentals on non-cancelable operating leases on the jet turbine generator as of December 31, 2014:

2015	120,000
2016	120,000
2017	<u>120,000</u>
Total minimum lease payment receivable	<u>\$ 425,000</u>

Beginning in 2016 going forward, the jet turbine operating lease amount will increase based upon the respective year's CPI.

The Utility leases bandwidth, property, and building space to the Water Utility and Communications Utility. The revenues are classified as leased facilities and totaled \$446,691 and \$448,938 in 2014 and 2013, respectively. The leases are 20-year variable leases based on bandwidth and space utilized. The payable at December 31, 2014 and 2013 was \$0.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 10 - RETIREMENT SYSTEM

IPERS

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 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.78% through June 30, 2013 and 5.95% presently of their annual salary and the Utility was required to contribute 8.67% through June 30, 2013 and 8.93% presently of annual payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2014, 2013 and 2012 were \$151,090, \$168,180 and \$147,601, respectively, equal to the required contributions for the year.

Employees Pension Plan

All full-time employees of the Electric Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Electric Utility's contribution to the 457b Pension Plan for 2014 and 2013 totaled \$136,543 and \$145,701, respectively.

Note 11 – OTHER POST EMPLOYMENT BENEFITS

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. The premiums charged by the health insurance carrier are the same for the Retirees under age 65 for medical/prescription drug benefits as active employees, which results in an implicit subsidy and an Other Post Employment Benefit ("OPEB") liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility's annual other OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 19,941	\$ 26,833
Interest on net OPEB obligation	2,511	1,677
Adjustment to annual required contribution	<u>(2,511)</u>	<u>(1,666)</u>
Annual OPEB cost (Expense)	19,941	26,844
Contributions (estimated)	<u>(22,198)</u>	<u>(16,420)</u>
Increase in net OPEB obligation	(2,257)	10,424
Net OPEB obligation – beginning of year	<u>62,773</u>	<u>52,349</u>
Net OPEB obligation – end of year	<u>\$ 60,516</u>	<u>\$ 62,773</u>

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 19,941	111%	\$ 60,516
2013	\$ 26,844	61%	\$ 62,773

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2014 was as follows:

	<u>2014</u>	<u>2013</u>
Actuarial accrued liability (AAL)	\$245,830	\$319,016
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$245,830	\$319,016
Covered payroll (active members)	\$1,485,356	\$1,677,547
UAAL as a percentage of covered payroll	16.6%	19.0%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA to SOA RP-2014. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 12 - RISK MANAGEMENT

The Electric 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 by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limits. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility, as is in the electric power industry, does not insure its transmission or distribution lines due to the high cost of such coverage.

Note 13 - RELATED PARTIES

The Electric Utility, Water Utility and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Additional related party items are included in Notes 6, 10 and III-D-14.

Note 14 - COMMITMENTS

Beginning in 2011, the Electric Utility signed an advertising and signage agreement with the Clay County Regional Event Center. The agreement is effective September 1, 2011 and terminates on August 31, 2016. The annual amount due is \$5,950. A portion of the annual cost is split between the Water and Communications Utility. The Electric Utility is responsible for \$2,677.50 of the annual amount due.

Beginning in 2013, the Electric Utility pledged support to the Iowa Lakes Corridor Development Corporation for four years at a level of \$37,500 per year for 2013 and 2014 and \$25,000 for 2015 and 2016. This commitment is subject to annual review by the Utility Board.

Beginning in 2013, the Electric Utility pledged support to Startup City Spencer which is a regional incubator providing access to startup services. The support pledged is for five years at a level of \$5,000 per year.

In October 2013 the Utility Board approved the Utility to receive a \$300,000 grant from USDA Rural Development with the intention of the Utility providing \$60,000 of matching funds to be used for the City of Spencer's emergency communications center. As of December 31, 2014 \$360,000 had been funded.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 14 – COMMITMENTS (Continued)

In February 2014 the Utility Board approved the Utility to receive a \$300,000 grant from USDA Rural Development with the intention of the Utility providing \$60,000 of matching funds to be used for the renovation of a building to be used as a therapy and counseling center by Seasons. As of December 31, 2014 \$0 had been funded.

Construction of the property located at 520 2nd Avenue East was substantially complete as of February 2014. As of December 31, 2014 the remaining unpaid balance to Woodruff Construction was \$113,538.

In March 2014 the Utility Board approved the Utility to purchase a Terex Commander digger derrick unit from Dueco for \$175,000 plus tax. The unit was ordered in 2014. As of December 31, 2014 the unit had not been received and \$0 paid.

Note 15 – 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 December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Utility's proportionate share of the employee pension plan's unfunded liability.

REQUIRED SUPPLEMENTAL INFORMATION

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	12/31/2008	\$ -	\$ 133,585	\$ 133,585	0%	\$ 1,648,850	8.1%
2009	12/31/2009	-	142,863	142,863	0%	1,698,315	8.4%
2010	12/31/2010	-	160,019	160,019	0%	1,749,265	9.1%
2011	12/31/2011	-	320,816	320,816	0%	1,558,355	20.6%
2012	12/31/2012	-	319,016	319,016	0%	1,605,106	19.9%
2013	12/31/2012	-	319,016	319,016	0%	1,677,547	19.0%
2014	12/31/2014	\$ -	\$ 245,830	\$ 245,830	0%	\$ 1,485,356	16.6%

See Note 11 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, and the funded status and funding progress.

SUPPLEMENTAL INFORMATION

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual	Amended to Actual Variance
	Original	Amended		
Receipts:				
Municipal Electric Utility			\$ 16,106,077	
Municipal Water Utility			7,283,242	
Municipal Communications Utility			8,423,898	
Total Receipts	<u>\$ 48,493,536</u>	<u>\$ 35,893,929</u>	<u>31,813,217</u>	<u>\$ (4,080,712)</u>
Expenditures:				
Municipal Electric Utility			14,733,567	
Municipal Water Utility			4,542,950	
Municipal Communications Utility			9,119,956	
Total Expenditures	<u>46,484,599</u>	<u>34,257,392</u>	<u>28,396,473</u>	<u>(5,860,919)</u>
Change in Net Position	2,008,937	1,636,537	3,416,744	1,780,207
Net Position at Beginning of Year	<u>11,663,499</u>	<u>15,952,901</u>	<u>15,816,207</u>	<u>-</u>
Net Position at End of Year	<u><u>\$ 13,672,436</u></u>	<u><u>\$ 17,589,438</u></u>	<u><u>\$ 19,232,951</u></u>	<u><u>\$ 1,780,207</u></u>

See Accompanying Independent Auditors' Report

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 16,106,077	\$ (148,111)	\$ 15,957,966
Municipal Water Utility	7,283,242	(4,255,446)	3,027,796
Municipal Communications Utility	8,423,898	(328,827)	8,095,071
Total Receipts	<u>31,813,217</u>	<u>(4,732,384)</u>	<u>27,080,833</u>
Expenditures:			
Municipal Electric Utility	14,733,567	311,446	15,045,013
Municipal Water Utility	4,542,950	(2,591,480)	1,951,470
Municipal Communications Utility	9,119,956	(3,364,268)	5,755,688
Total Expenditures	<u>28,396,473</u>	<u>(5,644,302)</u>	<u>22,752,171</u>
Change in Net Position	3,416,744	911,918	4,328,662
Net Position at Beginning of Year	<u>15,816,207</u>	<u>48,894,924</u>	<u>64,711,131</u>
Net Position at End of Year	<u><u>\$ 19,232,951</u></u>	<u><u>\$ 49,806,842</u></u>	<u><u>\$ 69,039,793</u></u>

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2014**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures, known as functions, not by fund. These 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. All Utility expenditures are included in business type activities function and are required to be budgeted.

**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***

Board of Trustees
Spencer Municipal Utilities – Municipal Electric Utility
Spencer, Iowa 51301

We have audited 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 the financial statements of the business-type activities of Municipal Electric Utility of the City of Spencer, Iowa (Spencer Municipal Utility), Spencer, Iowa as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer 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 Spencer Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Spencer Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 the Utility's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, we did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item 14-II-A that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Spencer Municipal Utilities' Response to Findings

Spencer Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Spencer Municipal Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 the entity'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 Spencer Municipal Utilities 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.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 3, 2015

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part I: Summary of the Independent Auditors' Results:

- (a) An unmodified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

MATERIAL WEAKNESS:

14-II-A Financial Reporting – During the audit, we identified material amounts of liabilities and grant revenue, and immaterial amounts of expenses not initially identified by Spencer Municipal Utilities' internal control. These amounts were either not recorded or not properly recorded in Spencer Municipal Utilities' financial statements. Adjustments were subsequently made by Spencer Municipal Utilities, if applicable, to properly include or reclassify these amounts in the financial statements.

Recommendation – Spencer Municipal Utility should implement procedures to ensure all accounts are properly identified, classified, and included in Spencer Municipal Utilities' financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part III: Other Findings Related to Required Statutory Reporting

III-A-14 Certified Budget – Disbursements during the year ended December 31, 2014 did not exceed the amounts budgeted in the business type activities function.

III-B-14 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-14 Travel Expenses – No expenditures of the Utility’s money for travel expenses of spouses of Utility’s officials or employees were noted.

III-D-14 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dan Shuck, SMU Employee Owner of Accurate Appliance	Fridge	\$ 482 (2)
Duane Barber, Board Member Part Owner, Don Pierson Ford	Vehicle Maintenance & Repairs	\$ 19,986 (1) \$ 4,968 (2)
Keri Peterson, SMU Employee Owner, Window Fashions & More	Supplies	\$ 340 (2)
Jason Remillard, SMU Employee Owner, Remillard Grafx	Maintenance and Repairs Marketing	\$ 623 (2) \$ 547 (2)

(1) In accordance with Chapter 362.5(3)(d) of the Code of Iowa, this transaction with the Board Member does not represent a conflict of interest since Spencer Municipal Utilities followed a bid process for the transaction.

(2) These transactions do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the year, per Chapter 362.5(10) of the Code of Iowa.

III-E-14 Bond Coverage – Surety bond coverage of Spencer 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 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-14 Revenue Bonds – As of December 31, 2014 the Utility is in compliance with all bond covenant requirements.

III-H-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility’s investment policy were noted.

SPENCER MUNICIPAL UTILITIES

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA**



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Water Utility
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Municipal Water Utility of the City of Spencer, Iowa (the Utility), as of and for the years ended December 31, 2014 and 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 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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2014 and 2013 and the respective changes in financial position and cash flows thereof for the years 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 that the Management's Discussion and Analysis and Funding Progress for the Retiree Health Plan information on pages 35 through 38 and page 54 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, who 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The supplementary information on pages 55 through 57 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 3, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Water Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2014 Financial Highlights

The Utility delivered approximately 370,513,000 gallons of water to its retail customers in 2014 compared to approximately 406,694,000 gallons in 2013.

The Utility's net position increased by \$1,076,326 to \$9,292,549 as a result of operations for the year ended December 31, 2014.

Overview of the Financial Statements

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statements of revenues, expenses and changes in net position report all revenues and expenses incurred during the fiscal year.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 5,545,593	\$ 2,772,641
Capital Assets, Net of Depreciation	<u>11,605,675</u>	<u>8,820,057</u>
Total Assets	<u>17,151,268</u>	<u>11,592,698</u>
Current Liabilities	1,520,767	1,155,670
Noncurrent Liabilities	17,287	14,125
Long-Term Debt	<u>6,320,665</u>	<u>2,206,680</u>
Total Liabilities	<u>7,858,719</u>	<u>3,376,475</u>
Net Investment in Capital Assets	7,383,437	6,453,377
Restricted	702,134	330,386
Unrestricted	<u>1,206,978</u>	<u>1,432,460</u>
Total Net Position	<u>\$9,292,549</u>	<u>\$8,216,223</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Sales of Water	\$2,714,739	\$2,210,022
Other	<u>15,225</u>	<u>24,938</u>
Total Operating Revenue	<u>2,729,964</u>	<u>2,234,960</u>
System Operation & Maintenance	975,791	809,377
Depreciation & Amortization	535,754	522,772
Customer Service & Administration	<u>235,047</u>	<u>218,646</u>
Total Operating Expenses	<u>1,746,592</u>	<u>1,550,795</u>
Operating Loss	983,372	684,165
Interest Income	3,509	5,182
Interest Expense	(42,875)	(43,809)
Other Income (Expense)	<u>132,320</u>	<u>13,840</u>
Total Non-Operating Revenues	<u>92,954</u>	<u>(24,787)</u>
Change in Net Position	1,076,326	659,378
Net Position, Beginning of Year	<u>8,216,223</u>	<u>7,556,845</u>
Net Position at End of Year	<u>\$9,292,549</u>	<u>\$8,216,223</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total net position increased by approximately \$1,076,000.

The Utility's gross revenues increased by approximately \$495,000 or 22%. Water sales and outside water sales were lower in 2014 by approximately 10 million, 3%, and 26 million, 43%, gallons, respectively. Water sales rates were increased \$0.50 per thousand gallons effective with January 2014 consumption. In addition, effective January 2014, the customer charge was increased from \$15 to \$20. The rate increases were essential for future improvements made to the treatment and distribution system in order to continue to provide quality and reliable water source for the community.

System operating expenses increased by approximately \$196,000 in 2014 compared to 2013. In 2014, maintenance of motor vehicles increased by approximately \$26,000 compared to 2013. This increase was partially due to repairs on backhoe and fleet vehicles. There were also additional labor hours due to a preventative maintenance program started in 2014. Maintenance of the distribution system realized an increase of approximately \$23,000 in 2014 compared to 2013. This increase was due to retirement of water mains in the distribution system. Water main break maintenance increased by approximately \$19,000 due to materials and labor. Maintenance of water meters increased by approximately \$49,000 in 2014 compared to 2013 due to purchase of water meters for meter replacement program. There was a \$38,000 extraordinary expense incurred in 2014 due to repairs on a leak in the south water tower as well as protecting the building and equipment below from damage caused by falling ice. The remaining operational increases in 2014 compared to 2013 were due to an increase in maintenance of structure and grounds due to the move to 520 2nd Avenue East, water plant maintenance and uncollectible account expense.

Total operating income generated in 2014 was \$983,372 compared to a \$684,165 gain in 2013.

Contributions in Aid of Construction totaled \$194,741 for the year ended December 31, 2014 compared to \$52,657 for the year ended December 31, 2013.

The Utility had a net profit of \$1,076,326 for the year ended December 31, 2014 compared to a net profit of \$659,378 for the year ended December 31, 2013.

Capital Assets and Debt Administration

Net capital assets increased by approximately \$2,800,000 in 2014 compared to 2013. Approximately \$1,200,000 of the increase was due to the completion of water main projects, replacement as well as new main, which included 9,034 lineal feet of 4", 6", 8", 10" and 12" water main during the year ended December 31, 2014. Approximately \$1,200,000 increase was due to Phase I improvements to the water plant. The remaining increase is due to the cost of construction in progress relating to wells 12 and 13, the Utility's ownership in the 520 2nd Avenue East building as well as equipment for operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Phase I water plant construction is underway and anticipated to be completed in May 2015. The design for Phase II water plant construction was completed and submitted for DNR approval in February 2015. The Phase II water plant bidding process and construction will begin once permits have been approved by the DNR. Wells 12 and 13 are also currently under construction with an estimated completion date of May 2015. Upon completion of both Phase I, Phase II, Well 12 and Well 13, the system will be rated at approximately 3.3 million gallons per day "Firm Capacity". "Firm Capacity" is the engineering standard by which a treatment plant capacity is valued based upon operation of the system with the largest unit out of service and provides a more realistic and responsible way for measuring the true capacity of a system to operate and meet demands. Current Firm Capacity of the Utility's system is 1.51 million gallons per day.

Economic Factors

During the year ended December 31, 2014, the Utility experienced a net profit of \$1,076,326. The rate adjustment effective with consumption beginning January 1, 2014 in addition to the increase in customer charge effective January 1, 2014 allowed the Utility sufficient coverage of operational and non-operational expenses. Management will continue to monitor the operations of the Utility in addition to projected capital expenditures and propose rate adjustments accordingly.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2nd Avenue East, Suite 1, Spencer, Iowa 51301.

FINANCIAL STATEMENTS

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 49,369	\$ 179,414
Board Designated	1,519,106	1,519,106
Restricted	3,208,002	337,665
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$2,500 and \$2,500)	584,691	580,671
Unbilled Usage	50,224	42,192
Materials and Supplies Inventory	107,859	100,420
Prepayments and Other	26,342	13,173
Total Current Assets	5,545,593	2,772,641
Capital Assets:		
Land	449,581	449,581
Construction in Progress	2,050,829	1,169,767
Plant in Service	18,037,315	15,603,037
Accumulated Depreciation	(8,932,050)	(8,402,328)
Total Capital Assets	11,605,675	8,820,057
Total Assets	17,151,268	11,592,698
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,050,539	948,912
Payroll and Sales Tax Payable	17,536	3,546
Accrued Payroll and Compensated Absences	39,851	30,533
Accrued Interest Payable	7,441	7,279
Unearned Revenue	5,400	5,400
Current Maturities of Long-Term Debt	400,000	160,000
Total Current Liabilities	1,520,767	1,155,670
Noncurrent Liabilities:		
Bonds Payable	6,720,665	2,366,680
Less - Current Maturities	(400,000)	(160,000)
Net OPEB Liability	17,287	14,125
Total Noncurrent Liabilities	6,337,952	2,220,805
Total Liabilities	7,858,719	3,376,475
NET POSITION		
Net Position		
Net Investment in Capital Assets	7,383,437	6,453,377
Restricted	702,134	330,386
Unrestricted	1,206,978	1,432,460
Total Net Position	\$ 9,292,549	\$ 8,216,223

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Operating Revenues:		
Residential	\$ 1,931,193	\$ 1,565,743
Commercial	783,546	644,279
Service Permits	10,500	22,000
Inventory Sales	2,075	178
Miscellaneous	2,650	2,760
	2,729,964	2,234,960
Total Operating Revenues		
Operating Expenses:		
Treatment	437,397	449,068
Distribution	538,394	360,309
Depreciation and Amortization	535,754	522,772
Customer Operations	55,741	48,852
General and Administrative	179,306	169,794
	1,746,592	1,550,795
Total Operating Expenses		
Operating Income	983,372	684,165
Non-Operating Income (Expense):		
Interest Income on Investments	3,509	5,182
Contributions From Developers	194,741	52,657
Resource Conservation	(60)	-
Leased Facilities	96,582	57,486
Interest Expense	(42,875)	(43,809)
Bond Costs Expense	(51,908)	-
Gain on Plant Retirements	3,000	-
Payment in Lieu of Property Taxes	(110,035)	(96,303)
	92,954	(24,787)
Total Non-Operating Income (Expense)		
Change in Net Position	1,076,326	659,378
Net Position at Beginning of Year	8,216,223	7,556,845
Net Position at End of Year	\$ 9,292,549	\$ 8,216,223

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 2,717,913	\$ 2,222,646
Cash Payments to Suppliers for Goods and Services	(549,669)	(839,393)
Cash Payments to Employees for Services	(553,681)	(389,296)
Cash Payments In Lieu of Property Taxes	(110,035)	(96,303)
Cash Payments for Resource Conservation	(60)	-
Payments Received From Leasing of Facilities	96,582	57,487
	1,601,050	955,141
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(3,126,631)	(2,177,261)
Proceeds from Revenue Bond	4,462,238	-
Proceeds from Sale of Capital Assets	3,000	-
Revenue Bond Principal Repayment	(160,000)	(165,000)
Payments Received From Sale of Inventory	-	-
Interest Paid	(42,874)	(55,204)
	1,135,733	(2,397,465)
Cash Flows From Investing Activities:		
Interest Received From Investments	3,509	5,182
	2,740,292	(1,437,142)
Net Increase (Decrease) in Cash	2,740,292	(1,437,142)
Cash and Cash Equivalents at Beginning of Year	2,036,185	3,473,327
Cash and Cash Equivalents at End of Year	\$ 4,776,477	\$ 2,036,185
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 49,369	\$ 179,414
Restricted	3,208,002	337,665
Board Designated	1,519,106	1,519,106
	\$ 4,776,477	\$ 2,036,185

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 983,372	\$ 684,165
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities		
Depreciation and Amortization	535,754	522,772
Leased Facilities Income	96,582	57,487
Payment in Lieu of Property Taxes	(110,035)	(96,303)
Payment for Resource Conservation	(60)	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(4,020)	(8,386)
Unbilled Usage	(8,032)	(9,328)
Materials and Supplies Inventory	(7,439)	(13,439)
Prepayments	(13,169)	(1,140)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	101,627	(196,978)
Accrued Payroll and Compensated Absences	23,308	8,357
Unearned Revenue	-	5,400
Net OPEB Liability	3,162	2,534
Total Adjustments	617,678	270,976
Net Cash Provided By Operating Activities	\$ 1,601,050	\$ 955,141

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Water Utility of the City of Spencer, Iowa (Water Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Electric Utility and the Municipal Communication Utility of the City of Spencer, Iowa by a five member Board of Trustees.

The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Utility has included all funds. The Utility 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 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. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

The Utility's 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.

The Utility distinguishes 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 the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new water facilities. In addition, net interest costs on construction debt are capitalized.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis. Depreciation expense is approximately 2.98% of the original cost of depreciable water plant in service.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	40 years
Buildings and Equipment	5-20 years
Vehicles	5 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. Net Position

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

F. Income Taxes

The Water Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

G. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of water and number of connections to the water main. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2014 and 2013 totaled \$50,224 and \$42,192, respectively.

H. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utility's deposits in bank at December 31, 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 Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk – The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Investments are recorded at cost which approximates market. Adjustments are made to cost for any premium or discount, which is amortized over the maturity of the investment. Adjustments are also made to account for the change in accrued interest on respective investments.

Reconciliation of the Utility's cash and cash equivalents and noncurrent investments is as follows:

	2014	2013
Cash and cash equivalents:		
Board designated	\$ 1,519,106	\$ 1,519,106
Restricted	3,208,002	337,665
Unrestricted	49,369	179,414
Total cash and cash equivalents	<u>\$ 4,776,477</u>	<u>\$ 2,036,185</u>

Note 3 - BOARD DESIGNATED FUNDS

The Board of trustees of the Utility has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net position, are being designated for contingencies such as a natural disaster and cannot be expended without Board approval.

The Board of Trustees of the Utility has designated certain funds to be placed in a replacement and construction reserve account. These funds, which are from unrestricted net position, are being designated for replacement of property, plant, and equipment and for new construction. These funds cannot be expended without Board approval.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 3 - BOARD DESIGNATED FUNDS (Continued)

Assets of the funds as of December 31, 2014 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Cash and cash equivalents	\$ 469,106	\$ 1,050,000	\$ 1,519,106
Total	\$ 469,106	\$ 1,050,000	\$ 1,519,106

Assets of the funds as of December 31, 2013 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Cash and cash equivalents	\$ 469,106	\$ 1,050,000	\$ 1,519,106
Total	\$ 469,106	\$ 1,050,000	\$ 1,519,106

Note 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 449,581	\$ -	\$ -	\$ 449,581
Construction in progress	1,169,767	1,389,185	(508,123)	2,050,829
Total capital assets not being depreciated	1,619,348	1,389,185	(508,123)	2,500,410
Capital assets being depreciated:				
Infrastructure	10,198,575	1,206,055	-	11,404,630
Buildings and equipment	5,128,453	1,216,679	-	6,345,132
Vehicles	276,009	17,576	(6,032)	287,553
Total capital assets being depreciated	15,603,037	2,440,310	(6,032)	18,037,315
Less accumulated depreciation	8,402,328	535,754	(6,032)	8,932,050
Total capital assets being depreciated - net	7,200,709	1,904,556	-	9,105,265
Net capital assets	\$ 8,820,057	\$3,293,741	\$(508,123)	\$ 11,605,675

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 4 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 359,081	\$ 90,500	\$ -	\$ 449,581
Construction in progress	320,406	1,115,543	(266,182)	1,169,767
Total capital assets not being depreciated	679,487	1,206,043	(266,182)	1,619,348
Capital assets being depreciated:				
Infrastructure	9,187,835	1,010,740	-	10,198,575
Buildings and equipment	4,859,136	269,317	-	5,128,453
Vehicles	266,009	10,000	-	276,009
Total capital assets being depreciated	14,312,980	1,290,057	-	15,603,037
Less accumulated depreciation	7,879,556	522,772	-	8,402,328
Total capital assets being depreciated - net	6,433,424	767,285	-	7,200,709
Net capital assets	\$ 7,112,911	\$1,973,328	\$(266,182)	\$ 8,820,057

Reconciliation of Net Investment in Capital Assets:

	2014	2013
Capital Assets (Net of Accumulated)	\$ 11,605,675	\$ 8,820,057
Unspent Bond Proceeds	2,498,427	-
Less: Bonds Payable	(6,720,665)	(2,366,680)
	<u>\$ 7,383,437</u>	<u>\$ 6,453,377</u>

Note 5 - SEWER, STORM WATER, AND SOLID WASTE

The Electric Utility bills and collects sewer, storm water, and solid waste revenues for the City of Spencer. The resulting receivable and corresponding payable are recorded under the Water Utility. The City of Spencer reimburses the Electric Utility for these services.

Note 6 - TRANSFERS IN LIEU OF PROPERTY TAXES

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfers approximate 5% of gross sales. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 7 – BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2014 Revenue Bonds	\$ -	\$ 4,440,000	\$ -	\$ 4,440,000	\$ 235,000
Series 2012 Revenue Bonds	2,365,000	-	160,000	2,205,000	165,000
Total	\$ 2,365,000	\$ 4,440,000	\$ 160,000	\$ 6,645,000	\$ 400,000

The Bonds Payable on the Statement of Net Position include \$75,665 of unamortized premiums.

The Series 2014 revenue bonds require annual principal payments, due May 1, and semiannual interest payments, due May 1 and November 1. The Series 2012 revenue bonds require annual principal payments, due November 1, and semiannual interest payments, due May 1 and November 1. Interest rates throughout the term of the bonds range between 1% and 3%. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

	Series 2012		Series 2014	
	Principal	Interest	Principal	Interest
2015	\$ 165,000	\$ 41,250	\$ 235,000	\$ 94,973
2016	165,000	39,476	240,000	109,300
2017	170,000	37,423	245,000	104,450
2018	170,000	35,085	245,000	98,325
2019	175,000	32,409	250,000	90,900
2020-2024	945,000	107,484	1,335,000	348,200
2025-2029	415,000	10,753	1,550,000	165,900
2030	-	-	340,000	5,100
Total	\$ 2,205,000	\$ 303,880	\$ 4,440,000	\$ 1,017,148

The bond resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

Revenue Bonds

The Utility has pledged future utility revenue, net of specified operating expenses, to repay outstanding utility revenue bonds. The bonds are payable solely from the utility's net revenues and are payable through 2030. The total principal and interest remaining to be paid on the bonds is \$7,966,028. Principal and interest paid for the current year and total combined utilities net revenues were \$202,875 and 1,516,991, respectively.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 7 – BONDS PAYABLE (Continued)

Restricted Funds

Outstanding Water Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2014 and 2013 the Utility is in compliance with all bond covenant requirements.

The special funds consisted of the following:

	2014	2013
Bond Sinking Fund	\$ 152,703	\$ 122,080
Bond Reserve Fund	556,872	215,585
Bond Proceeds Fund	2,498,427	-
Total	\$ 3,208,002	\$ 337,665

Monthly deposits into the bond sinking fund are required to establish the amount necessary to pay the next installments of principal and interest. The bond reserve fund at December 31, 2014 and 2013 equaled the required balance; therefore monthly deposits into the fund are not currently required. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

Note 8 - RATE MATTERS

Rates of the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Note 9 - NUMBER OF METER CONNECTIONS

The number of meter connections totaled 5,984 and 5,955 at December 31, 2014 and 2013, respectively.

Note 10 - LEASES

Effective January 2012 the Utility entered into a 6 month lease with month to month option thereafter. The Utility received lease payments totaling \$20,000 in 2013 due to tenant terminating the month to month lease. Effective November 2013 the Utility entered into a 2 year lease with month to month option for 1 year thereafter. A 1 year and 10 month lease was entered into December 2013, effective January 2014. The leases are monthly leases and totaled \$57,700 and \$800 in 2014 and 2013, respectively.

Effective September 2006 the Utility entered into a 9 year lease with 5 year term option thereafter. The lease was amended effective July 2012 for additional equipment. The lease is a monthly lease and totaled \$18,000 in 2014 and 2013, respectively.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 10 – LEASES (Continued)

Effective April 2013 the Utility entered into a 2 year 11 month lease with two 5 year term options thereafter. The lease is a monthly lease and totaled \$6,710 and \$4,995 in 2014 and 2013, respectively.

Effective March 2009 the Utility entered into a 7 year extended lease term. The lease is a monthly lease and totaled \$14,172 and \$13,692 in 2014 and 2013, respectively.

The Utility lease bandwidth and building space from the Electric and Communications Utilities. The expense from such leases is classified as operating expense. The lease is a 20-year variable lease based on bandwidth and space utilized and totaled \$21,840 and \$23,418 in 2014 and 2013, respectively. The payable at December 31, 2014 and 2013 was \$0.

Note 11 - RETIREMENT SYSTEM

IPERS

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 to plan member 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.78% through June 30, 2013 and 5.95% presently of their annual salary and the Utility was required to contribute 8.67% through June 30, 2013 and 8.93% presently of annual payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2014, 2013 and 2012 were \$30,594, \$25,316 and \$22,456, respectively, equal to the required contributions for each year.

EMPLOYEES PENSION PLAN

All full-time employees of the Water Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Water Utility's contribution to the 457b Pension Plan for 2014 and 2013 totaled \$24,654 and \$20,746, respectively.

Note 12 – OTHER POST EMPLOYMENT BENEFITS

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. The premiums charged by the health insurance carrier are the same for the Retirees under age 65 for medical/prescription drug benefits as active employees, which results in an implicit subsidy and an Other Post Employment Benefit ("OPEB") liability.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 12 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	2014	2013
Annual required contribution	\$ 3,157	\$ 2,531
Interest on net OPEB obligation	565	363
Adjustment to annual required contribution	(560)	(360)
Annual OPEB cost (Expense)	3,162	2,534
Contributions made	-	-
Increase in net OPEB obligation	3,162	2,534
Net OPEB obligation – beginning of year	14,125	11,591
Net OPEB obligation – end of year	\$ 17,287	\$ 14,125

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 3,162	0%	\$ 17,287
2013	\$ 2,534	0%	\$ 14,125

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2014 was as follows:

	2014	2013
Actuarial accrued liability (AAL)	\$ 17,875	\$ 15,921
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 17,875	\$ 15,921
Covered payroll (active members)	\$396,946	\$270,662
UAAL as a percentage of covered payroll	4.5%	6.0%

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 12 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA to SOA RP-2014. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 13 - RISK MANAGEMENT

The Water 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 by the purchase of commercial insurance. The Utility assumes liability for any deductible 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 14 - RELATED PARTIES

The Electric Utility, Water Utility, and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Related party items are included in Note 10 and III-D-14.

Note 15 – COMMITMENTS

Spencer Municipal Utilities entered into an agreement with Valley Contracting, Inc., in March 2014. The contract is in the amount of \$409,377 for improvements to water mains at 7 separate locations in Spencer. The water main improvements included approximately 61 lineal feet of 4" pipe, 918 lineal feet of 6" pipe, 634 lineal feet of 8" pipe, and 32 lineal feet of 12" pipe. As of December 31, 2014 the remaining balance was \$77,423. Project is expected to be completed in 2015.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 15 – COMMITMENTS (Continued)

Spencer Municipal Utilities entered into an agreement with Valley Contracting, Inc., in August 2014. The contract is in the amount of \$148,433 for improvements to water mains located by 8th Street East. The water main improvements included approximately 77 lineal feet of 6” pipe and 1,005 lineal feet of 8” pipe. As of December 31, 2014 the remaining balance was \$126,383. Project is expected to be completed in 2015.

Spencer Municipal Utilities entered into an agreement with Shawver Well Company in September 2014. The contract is in the amount of \$203,975 for construction of 2 new wells. As of December 31, 2014 the remaining balance was \$182,440. Project is expected to be completed in 2015.

Spencer Municipal Utilities entered into an agreement with Industrial Process Technology, Inc., in September 2014. The contract is in the amount of \$2,470,718 for Phase I of improvements to the water plant. As of December 31, 2014 the remaining balance was \$1,821,233. Project is expected to be completed in 2015.

Note 16 – 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 December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Utility’s proportionate share of the employee pension plan’s unfunded liability.

REQUIRED SUPPLEMENTAL INFORMATION

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	12/31/2008	\$ -	\$ 11,713	\$ 11,713	0%	\$ 360,103	3.3%
2009	12/31/2009	-	13,726	13,726	0%	370,906	3.7%
2010	12/31/2010	-	16,680	16,680	0%	382,033	4.4%
2011	12/31/2011	-	14,137	14,137	0%	258,674	5.5%
2012	12/31/2012	-	15,921	15,921	0%	266,434	6.0%
2013	12/31/2012	-	15,921	15,921	0%	270,662	6.0%
2014	12/31/2014	\$ -	\$ 17,875	\$ 17,875	0%	\$ 396,946	4.5%

See Note 12 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, and the funded status and funding progress.

SUPPLEMENTAL INFORMATION

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual	Amended to Actual Variance
	Original	Amended		
Receipts:				
Municipal Electric Utility			\$ 16,106,077	
Municipal Water Utility			7,283,242	
Municipal Communications Utility			8,423,898	
Total Receipts	<u>\$ 48,493,536</u>	<u>\$ 35,893,929</u>	<u>31,813,217</u>	<u>\$ (4,080,712)</u>
Expenditures:				
Municipal Electric Utility			14,733,567	
Municipal Water Utility			4,542,950	
Municipal Communications Utility			9,119,956	
Total Expenditures	<u>46,484,599</u>	<u>34,257,392</u>	<u>28,396,473</u>	<u>(5,860,919)</u>
Change in Net Position	2,008,937	1,636,537	3,416,744	1,780,207
Net Position at Beginning of Year	<u>11,663,499</u>	<u>15,952,901</u>	<u>15,816,207</u>	<u>-</u>
Net Position at End of Year	<u>\$ 13,672,436</u>	<u>\$ 17,589,438</u>	<u>\$ 19,232,951</u>	<u>\$ 1,780,207</u>

See Accompanying Independent Auditors' Report

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 16,106,077	\$ (148,111)	\$ 15,957,966
Municipal Water Utility	7,283,242	(4,255,446)	3,027,796
Municipal Communications Utility	8,423,898	(328,827)	8,095,071
Total Receipts	<u>31,813,217</u>	<u>(4,732,384)</u>	<u>27,080,833</u>
Expenditures:			
Municipal Electric Utility	14,733,567	311,446	15,045,013
Municipal Water Utility	4,542,950	(2,591,480)	1,951,470
Municipal Communications Utility	9,119,956	(3,364,268)	5,755,688
Total Expenditures	<u>28,396,473</u>	<u>(5,644,302)</u>	<u>22,752,171</u>
Change in Net Position	3,416,744	911,918	4,328,662
Net Position at Beginning of Year	<u>15,816,207</u>	<u>48,894,924</u>	<u>64,711,131</u>
Net Position at End of Year	<u>\$ 19,232,951</u>	<u>\$ 49,806,842</u>	<u>\$ 69,039,793</u>

See Accompanying Independent Auditors' Report

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2014**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures, known as functions, not by fund. These 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. All Utility expenditures are included in business type activities function and are required to be budgeted.

**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***

Board of Trustees
Spencer Municipal Utilities – Municipal Water Utility
Spencer, Iowa 51301

We have audited 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 the financial statements of the business-type activities of Municipal Water Utility of the City of Spencer, Iowa (Spencer Municipal Utility), Spencer, Iowa as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer 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 Spencer Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Spencer Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 the Utility's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and is not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item 14-II-A that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Spencer Municipal Utilities' Response to Findings

Spencer Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Spencer Municipal Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 the entity'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 Spencer Municipal Utilities 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.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 3, 2015

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part I: Summary of the Independent Auditors' Results:

- (a) An unmodified opinion was issued on the financial statements.
- (a) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (b) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCY:

14-II-A Financial Reporting – During the audit, we identified immaterial amounts of inventory and expenses not initially identified by Spencer Municipal Utilities' internal control. These amounts were either not recorded or not properly recorded in Spencer Municipal Utilities' financial statements.

Recommendation – Spencer Municipal Utility should implement procedures to ensure all accounts are properly identified, classified, and included in Spencer Municipal Utilities' financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part III: Other Findings Related to Required Statutory Reporting

III-A-14 Certified Budget – Disbursements during the year ended December 31, 2014 did not exceed the amounts budgeted in the business type activities function.

III-B-14 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-14 Travel Expenses – No expenditures of the Utility’s money for travel expenses of spouses of Utility’s officials or employees were noted.

III-D-14 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jason Remillard, SMU Employee	Maintenance and Repairs	\$ 414 (1)
Owner, Remillard Grafx	Marketing	\$ 235 (1)
Dan Shuck, SMU Employee		
Owner of Accurate Appliance	Fridge	\$ 107 (1)
Duane Barber, Board Member		
Part Owner, Don Pierson Ford	Maintenance & Repairs	\$ 900 (1)
Keri Peterson, SMU Employee		
Owner, Window Fashions & More	Supplies	\$ 72 (1)

(1) These transactions do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the year, per Chapter 362.5(10) of the Code of Iowa.

III-E-14 Bond Coverage – Surety bond coverage of Spencer 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 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-14 Revenue Bonds – As of December 31, 2014 the Utility is in compliance with all bond covenant requirements.

III-H-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility’s investment policy were noted.

SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Communications Utility
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Municipal Communications Utility of the City of Spencer, Iowa (the Utility), as of and for the years ended December 31, 2014 and 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 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.

Auditor's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2014 and 2013 and the respective changes in financial position and cash flows thereof for the years 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 that the Management's Discussion and Analysis and Funding Progress for the Retiree Health Plan information on pages 64 through 67 and page 81 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, who 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The supplementary information on pages 82 through 84 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 3, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Communications Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2014 Financial Highlights

Total net capital assets increased by approximately \$2,074,000 which was mainly attributable to the Fiber to the Home construction which amounted to approximately \$1,650,000. The Utility's ownership in the 520 2nd Avenue East building, in the amount of approximately \$940,000, also attributed to the increase in assets.

Total liabilities decreased as of December 31, 2014 compared to December 31, 2013 by approximately \$303,000 due to vendor payments for construction of FTTH, retransmission and programming fees and reimbursement of quarterly operations to the Electric and Water Utility.

Total net position increased by \$2,339,000 as the result of the utility operations and receipt of \$1,250,000 sale of spectrum.

Overview of the Financial Statements

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statements of revenues, expenses and changes in net position report all revenues and expenses incurred during the fiscal year.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 4,063,175	\$ 3,898,647
Capital Assets, Net of Depreciation	8,826,921	6,752,477
Noncurrent assets	<u>689,413</u>	<u>891,598</u>
Total assets	<u>13,579,509</u>	<u>\$ 11,542,722</u>
Current Liabilities	702,500	1,010,300
Noncurrent Liabilities	<u>91,396</u>	<u>86,192</u>
Total liabilities	<u>793,896</u>	<u>1,096,492</u>
Net Investment in Capital Assets	8,826,921	6,752,477
Unrestricted	<u>3,958,692</u>	<u>3,693,753</u>
Total net position	<u>\$12,785,613</u>	<u>\$10,446,230</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Cable Television Revenue	\$2,800,509	\$2,753,898
Telephone Revenue	2,082,023	2,483,748
Data Revenue	1,799,406	1,633,047
Inventory Sales	1,877	328
Miscellaneous Revenue	<u>15,496</u>	<u>16,315</u>
Total Operating Revenue	<u>6,699,311</u>	<u>6,887,336</u>
Plant Specific and Programming	3,625,456	3,482,076
Depreciation & Amortization	783,292	658,686
Customer service & Administration	<u>1,103,620</u>	<u>1,401,135</u>
Total operating expenses	<u>5,512,368</u>	<u>5,541,897</u>
Operating Income	1,186,943	1,345,439
Interest Income	6,256	13,241
Other Income	<u>1,146,184</u>	<u>237,500</u>
Total Non-Operating Revenues	<u>1,152,440</u>	<u>250,741</u>
Change in Net Position	2,339,383	1,596,180
Net Position, Beginning of Year	<u>10,446,230</u>	<u>8,850,050</u>
Net Position, End of Year	<u>\$12,785,613</u>	<u>\$10,446,230</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets increased by approximately \$2,037,000.

The Utility's gross revenues decreased by approximately \$188,000 or 3%. The revenue decrease was primarily due to booking an allowance for uncollectible access revenue in 2014. The allowance booked was in the amount of approximately \$490,000 which was 50% of outstanding long-distance carrier receivables. In addition, residential subscriber phone line counts continue to drop, approximately \$44,000 or 5%, decrease in 2014 compared to 2013. In 2014 cable TV revenue increased by approximately \$47,000, or 2% compared to 2013. While basic and basic plus subcounts dropped in 2014 by approximately 100 or 4%, and 147 or 5%, respectively, a rate increase to basic plus effective June 2014 increased basic plus revenue by approximately \$37,000. The rate increase was implemented to cover the increase in programming expense. Internet revenues increased by approximately \$166,000 or 10% in 2014 compared to 2013. The revenue increase stems from internet subcounts continuing to slowly increase in addition to a rate increase implemented effective June 2014. The increase in 2014 to Net Income from Joint Ventures was attributable to receipt of the spectrum sale to AT&T Mobility Spectrum, LLC. by NICP. The Utility, as participating Member of NICP, received 10% of sale proceeds amounting to \$1,250,000.

Total operating expenses decreased by approximately \$30,000. The Utility incurred employee turnover which resulted in reassignment of some job duties to other positions, longer than anticipated period to rehire for certain positions and transfer within Utility to open position and elimination of positions. This affected the operating expenses of Customer Service which decreased by approximately \$159,000 from 2013 to 2014. General and Administrative expenses also decreased in 2014 compared to 2013. Approximately \$30,000 of the decrease was due to minimal legal fees incurred from long-distance carrier litigation. The remainder of the decrease was due to sick leave converted to PTO in 2013 based on a change to the employee handbook. Programming expenses increased by approximately \$77,000 or 5% in 2014 compared to 2013. The increase was mainly due to the basic plus programming rate increases to the Utility. Distribution maintenance costs increased in 2014 compared to 2013 by approximately \$59,000. Customer premise labor costs were a contributing factor to the increase in operation costs due to increased hours and benefit allocations. Service calls increased by 15% from 2013 to 2014. Service calls include new installation, FTTH and VOIP conversions and trouble tickets. Maintenance of structure and grounds was another factor in the increased distribution costs in 2014 stemming from labor hours maintaining the 520 2nd Avenue East building.

Total operating income generated in 2014 was 1,186,943 compared to 1,345,439 in 2013.

The Utility had a net gain of \$2,339,383 for the year ended December 31, 2014 compared to a net gain of \$1,596,180 for the year ended December 31, 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Net capital assets increased by approximately \$2,070,000 for year ending December 31, 2014 compared to an increase by approximately \$3,160,000 for year ending December 31, 2013. The increase in net capital assets both years was primary due to the Fiber to the Home projects in Nodes 4-7, 14-15 and 17-24 as well as Utility's ownership in the 520 2nd Avenue East building and equipment for operations.

Economic Factors

The Utility has continued to experience a slight decrease in its Cable TV subscriber base and residential telephone line customers. The rate increase in 2014 to Cable TV was implemented to cover annual programming increases charged to the Utility for providing cable service. As customers continue to acquire more electronic devices and stream online videos, TV content, etc. in their home it is essential that the Utility continues to provide fast and reliable internet service. In order to do so the continuation of the Fiber to the Home construction will be a top priority for the Utility. The 2013 Fiber to the Home project began mid-2013 and was completed by the contractor in September 2014 and is expected that customer conversions will be complete in early 2015. When Nodes 4-7 and 17 are completed it will comprise 10.67% of total homes passed. The 2014 Fiber to the Home project was approved by the Board in July 2014 and is anticipated to be completed by contractor in June 2015 and customer conversions completed by mid to late 2016. When Nodes 18-24 and 14-15 are completed it will comprise 35.55% of total homes passed.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2nd Avenue East, Suite 1, Spencer, Iowa 51301.

FINANCIAL STATEMENTS

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,166,258	\$ 2,862,316
Consumer Deposits	46,727	50,437
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$500,042 and \$7,600)	565,238	687,426
Unbilled Usage	82,071	92,635
Materials and Supplies Inventory	1,039,944	114,616
Prepayments and Other	162,937	91,217
Total Current Assets	4,063,175	3,898,647
Capital Assets:		
Land	10,342	10,342
Property and Equipment	20,201,019	17,371,078
Accumulated Depreciation	(11,384,440)	(10,628,943)
Total Capital Assets	8,826,921	6,752,477
Noncurrent Assets:		
Long-term Receivables	689,413	891,598
Total Noncurrent Assets	689,413	891,598
Total Assets	13,579,509	11,542,722
LIABILITIES		
Current Liabilities:		
Accounts Payable	478,366	813,280
Payroll and Sales Tax Payable	29,631	19,713
Accrued Payroll and Compensated Absences	145,376	124,470
Unearned Revenue	2,400	2,400
Consumer Deposits	46,727	50,437
Total Current Liabilities	702,500	1,010,300
Noncurrent Liabilities		
Unearned Revenue	32,400	34,800
Net OPEB Liability	58,996	51,392
Total Noncurrent Liabilities	91,396	86,192
Total Liabilities	793,896	1,096,492
NET POSITION		
Net Position		
Net Investment in Capital Assets	8,826,921	6,752,477
Unrestricted	3,958,692	3,693,753
Total Net Position	\$ 12,785,613	\$ 10,446,230

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Operating Revenues:		
Cable System Revenue	\$ 2,800,509	\$ 2,753,898
Telephone System Revenue	2,082,023	2,483,748
Data Services Revenue	1,799,406	1,633,047
Inventory Sales	1,877	328
Miscellaneous Income	15,496	16,315
Total Operating Revenues	6,699,311	6,887,336
Operating Expenses:		
Plant Specific and Programming	3,625,456	3,482,076
Depreciation and Amortization	783,292	658,686
Customer Services and Marketing	536,559	768,300
General and Administrative	567,061	632,835
Total Operating Expenses	5,512,368	5,541,897
Operating Income	1,186,943	1,345,439
Non-Operating Income (Expense):		
Leased Facilities	135,190	156,685
Net Income from Joint Ventures	1,253,289	103,164
Economic Development Payment	(75,414)	(31,734)
Interest Income	6,256	13,241
Gain on Plant Retirements	1,025	9,385
Payment in Lieu of Property Taxes	(167,906)	-
Total Non-Operating Income	1,152,440	250,741
Change in Net Position	2,339,383	1,596,180
Net Position at Beginning of Year	10,446,230	8,850,050
Net Position at End of Year	\$ 12,785,613	\$ 10,446,230

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 6,825,953	\$ 7,304,758
Cash Payments to Suppliers for Goods and Services	(4,534,629)	(3,255,297)
Cash Payments to Employees for Services	(1,484,271)	(1,451,261)
Cash Payments for Economic Development and In Lieu of Property Taxes	(243,320)	(31,734)
Payments Received From Leasing of Facilities	135,190	156,685
	698,923	2,723,151
Net Cash Provided By Operating Activities		
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(2,857,736)	(3,819,941)
Proceeds from the Sale of Assets	1,025	9,385
	(2,856,711)	(3,810,556)
Net Cash (Used) By Capital and Related Financing Activities		
Cash Flows From Investing Activities:		
Other Investments	1,455,474	40,804
Interest Received From Investments	6,256	13,241
	1,461,730	54,045
Net Cash Provided By Investing Activities		
Net (Decrease) in Cash	(696,058)	(1,033,360)
Cash and Cash Equivalents at Beginning of Year	2,862,316	3,895,676
Cash and Cash Equivalents at End of Year	\$ 2,166,258	\$ 2,862,316

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities**

Operating Income	\$ 1,186,943	\$ 1,345,439
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities		
Depreciation and Amortization	783,292	658,686
Leased Facilities Income	135,190	156,685
Contributions Paid for Economic Development	(75,414)	(31,734)
Payment in Lieu of Property Taxes	(167,906)	-
(Increase) Decrease in Operating Assets:		
Consumer Deposits	3,710	8,967
Accounts Receivable	122,188	389,451
Unbilled Usage	10,564	39,338
Materials and Supplies Inventory	(925,328)	3,055
Prepayments	(71,720)	(7,579)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(334,914)	109,027
Accrued Payroll and Compensated Absences	30,824	52,349
Consumer Deposits	(3,710)	(8,967)
Deferred Revenue	(2,400)	(2,400)
Net OPEB Liability	7,604	10,834
Total Adjustments	<u>(488,020)</u>	<u>1,377,712</u>
Net Cash Provided By Operating Activities	<u>\$ 698,923</u>	<u>\$ 2,723,151</u>

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Communications Utility of the City of Spencer, Iowa (Communications Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Electric Utility and the Municipal Water Utility of the City of Spencer, Iowa, by a five member Board of Trustees. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television, telephone, high-speed data communications and other communication products. The Utility's rates are set by its governing board.

For financial reporting purposes, the Utility has included all funds. The Utility 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 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. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

The Utility's 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.

The Utility distinguishes 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 the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new communications facilities. In addition, net interest costs on construction debt are capitalized. Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. Depreciation is calculated on the straight-line basis. Current depreciation expense is approximately 3.88% of the original cost of depreciable communication plant in service.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	10-15 years
Buildings and improvements	20 years
Equipment	5-7 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. Net Position

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

F. Income Taxes

The Communications Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

G. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2014 and 2013, totaled \$82,071 and \$92,635, respectively.

H. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 2 - CASH AND CASH EQUIVALENTS

The Utility's deposits in banks at December 31, 2014 and 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 statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Note 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,342	\$ -	\$ -	\$ 10,342
Total capital assets not being depreciated	10,342	-	-	10,342
Capital assets being depreciated:				
Infrastructure	13,252,272	1,883,214	(1,929)	15,133,557
Buildings and improvements	1,501,658	322,768	(12,213)	1,812,213
Equipment	2,617,148	663,966	(25,865)	3,255,249
Total capital assets being depreciated	17,371,078	2,869,948	(40,007)	20,201,019
Less accumulated depreciation	10,628,943	783,292	(27,795)	11,384,440
Total capital assets being depreciated - net	6,742,135	2,086,656	(12,212)	8,816,579
Net Investment in capital assets	\$6,752,477	\$2,086,656	\$(12,212)	\$ 8,826,921

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 3 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,342	\$ -	\$ -	\$ 10,342
Total capital assets not being depreciated	10,342	-	-	10,342
Capital assets being depreciated:				
Infrastructure	11,163,470	2,109,530	(20,728)	13,252,272
Buildings and improvements	946,016	555,642	-	1,501,658
Equipment	1,462,379	1,154,769	-	2,617,148
Total capital assets being depreciated	13,571,865	3,819,941	(20,728)	17,371,078
Less accumulated depreciation	9,990,985	658,686	(20,728)	10,628,943
Total capital assets being depreciated - net	3,580,880	3,161,255	-	6,742,135
Net Investment in capital assets	\$3,591,222	3,161,255	-	\$6,752,477

Note 4 - TRANSFERS IN LIEU OF PROPERTY TAX

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Funds totaling \$167,906 and \$0 were transferred to the City during 2014 and 2013, respectively. Transferred funds were for Storefront Interest and the Residential Housing Land Purchase.

Note 5 - LONG-TERM RECEIVABLES

During December 2003, the Utility entered into an agreement with Northern Iowa Communications Partners, LLC (NICP), an Iowa limited liability company, pursuant to the provisions of Chapter 28E of the Code of Iowa. Under this agreement, the Utility, along with other members of NICP, agrees to pay for the use of a shared switch for routing certain telecommunications traffic at rates adopted by NICP. The Utility will share in profits generated or shortfalls incurred through the 28E agreement due to the method used to determine an annual usage fee paid by NICP to the Utility. An NICP member will be responsible for maintaining the financial records related to the 28E agreement. The amount earned but not received by the Utility in 2014 and 2013 was \$176,542 and \$230,270, respectively. These amounts are recorded as a receivable.

During May 2006, the Utility entered into an agreement with Evertek, Inc., an Iowa Corporation, to create Clay County Communications, LLC as a separate legal entity. Clay County Communications shall function as if it were a limited liability company organized under Iowa Code Chapter 490A. The purpose of this agreement and Clay County Communications is to provide wired and/or wireless communications services in Clay County, Iowa. The Utility and Evertek, Inc. each initially contributed \$400,000. During 2007 the Utility and Evertek, Inc. each made an additional contribution \$150,000. The Utility accounts for the joint venture on the

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 5 - LONG-TERM RECEIVABLES (Continued)

equity method, and has recorded the balance of \$512,871 and \$661,328 as a receivable in 2014 and 2013, respectively.

Note 6 - LEASES and LONG TERM UNEARNED REVENUE

Spencer Municipal Utilities entered into a 20 year fiber lease agreement with the Iowa Rural Health Telecommunications Program on July 1, 2009. The contract amount for the lease is \$48,000 and is due in full upon construction completion. Construction was completed and \$48,000 was collected in 2009. Spencer Municipal Utilities recognized \$2,400 and \$2,400 in revenue during 2014 and 2013, respectively. In 2014, there was \$2,400 as short term unearned revenue and the remaining \$32,400 as long term revenue. Spencer Municipal Utilities is responsible for maintenance of the fiber.

The Utility leases bandwidth, property, and building space from the Electric Utility. The expense from the lease is classified as operating expense. The lease is a 20-year variable lease based on bandwidth and space utilized and totaled \$413,678 and \$412,224 in 2013 and 2013, respectively. The payable at December 31, 2014 and 2013 was \$0.

Note 7 - RETIREMENT SYSTEM

IPERS

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 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.78% through June 30, 2013 and 5.95% presently of their annual salary and the Utility was required to contribute 8.67% through June 30, 2013 and 8.93% presently of annual payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2014, 2013 and 2012 were \$83,140, \$86,290 and \$83,704, respectively, equal to the required contributions for the year.

Employees Pension Plan

All full-time employees of the Communications Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Communications Utility's contribution to the 457b Pension Plan for 2014 and 2013 totaled \$72,893 and \$78,313, respectively.

Note 8 - OTHER POST EMPLOYMENT BENEFITS

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 8 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The medical/prescription drug coverage is provided through a fully-insured plan. The premiums charged by the health insurance carrier are the same for the Retirees under age 65 for medical/prescription drug benefits as active employees, which results in an implicit subsidy and an Other Post Employment Benefit (“OPEB”) liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility’s annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility’s net OPEB obligation to the plan:

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 7,690	\$ 11,155
Interest on net OPEB obligation	2,056	1,188
Adjustment to annual required contribution	<u>(2,056)</u>	<u>(1,181)</u>
Annual OPEB cost (Expense)	7,690	11,162
Contributions (estimated)	<u>(86)</u>	<u>(328)</u>
Increase in net OPEB obligation	7,604	10,834
Net OPEB obligation – beginning of year	<u>51,392</u>	<u>40,558</u>
Net OPEB obligation – end of year	<u>\$ 58,996</u>	<u>\$ 51,392</u>

The Utility’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 7,690	1%	\$ 58,996
2013	\$ 11,162	3%	\$ 51,932

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2014 was as follows:

	<u>2014</u>	<u>2013</u>
Actuarial accrued liability (AAL)	\$ 44,944	\$ 52,858
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 44,944</u>	<u>\$ 52,858</u>
Covered payroll (active members)	\$880,409	\$1,042,869
UAAL as a percentage of covered payroll	5.1%	5.0%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 8 – OTHER POST EMPLOYMENT BENEFITS (Continued)

far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA to SOA RP-2014. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 9 - RISK MANAGEMENT

The Communications 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 by the purchase of commercial insurance. The Utility assumes liability for any deductible 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 10 - RELATED PARTIES

The Electric Utility, Water Utility, and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Additional related party items are included in Notes 5, 6 and III-D-14.

Note 11 – CONTINGENCIES

Until February 2012, the Utility has provided Iowa based telephone numbers to callers who are then connected to a conference call. The Utility maintains these are terminated in Iowa and charges long-distance carriers a fee for terminating access services. The Utility then pays a portion of the revenue to other communication providers who supply a portion of the services. Until 2007 the long-distance carriers have paid these charges to the Utility. As of December 31,

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 11 – CONTINGENCIES (Continued)

2013 all carrier litigation arguments were settled.

In September of 2014 the Utility was notified of a dispute regarding intra MTA traffic by MCI Communications Services, Inc. In November of 2014, the Utility along with several other communications companies were named in litigation filed by MCI Communications Services, Inc. The Utility is defending the litigation and denies any wrongdoing.

The allowance account for carrier receivables as of December 31, 2014 and December 31, 2013 was \$489,542 and \$0, respectively.

Note 12 - COMMITMENTS

Beginning in 2011, the Communications Utility signed an advertising and signage agreement with the Clay County Regional Event Center. The agreement is effective September 1, 2011 and terminates on August 31, 2016. The annual amount due is \$5,950. A portion of the annual cost is split between the Electric and Water Utility. The Communication Utility is responsible for \$2,677.50 of the annual amount due.

Beginning in 2013, the Communications Utility pledged support to the Iowa Lakes Corridor Development Corporation for four years at a level of \$37,500 per year for 2013 and 2014 and \$25,000 for 2015 and 2016. This commitment is subject to annual review by the Utility Board.

Beginning in 2013, the Communications Utility pledged support to Startup City Spencer which is a regional incubator providing access to startup services. The support pledged is for five years at a level of \$5,000 per year.

Spencer Municipal Utilities entered into an agreement with North Central Service, Inc. in July 2014. The contract is in the amount of \$3,521,735 for conversion of Nodes 18-24 and Nodes 14 and 15 to Fiber to the Home. As of December 31, 2014 the remaining balance was \$3,301,748. Project is expected to be completed in 2015.

Spencer Municipal Utilities entered into an agreement with Schoon Construction, Inc. in April 2013. The contract is in the amount of \$1,233,453 for conversion of Nodes 4-7 and Node 17 to Fiber to the Home. Project was completed in 2014 and \$52,128 remained unpaid as of December 31, 2014.

Note 13 – 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 December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Utility's proportionate share of the employee pension plan's unfunded liability.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 14 - SUBSEQUENT EVENT

As of January 23, 2014 an agreement was executed between NIPC and AT&T Mobility Spectrum, LLC. The agreement pertains to NIPC selling its rights of geographic area and spectrum to AT&T Mobility Spectrum, LLC. The Communications Utility, as participating Member of NIPC, anticipates receipt in 2015 of holdback funds which amounts to approximately \$146,000.

REQUIRED SUPPLEMENTAL INFORMATION

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	12/31/2008	\$ -	\$ 22,881	\$ 22,881	0%	\$ 958,187	2.4%
2009	12/31/2009	-	28,668	\$ 28,668	0%	986,933	2.9%
2010	12/31/2010	-	36,624	\$ 36,624	0%	1,016,541	3.6%
2011	12/31/2011	-	45,009	\$ 45,009	0%	1,009,606	4.5%
2012	12/31/2012	-	52,828	52,828	0%	1,039,894	5.0%
2013	12/31/2012	-	52,828	52,828	0%	1,042,869	5.0%
2014	12/31/2014	\$ -	\$ 44,944	\$ 44,944	0%	\$ 880,409	5.1%

See Note 8 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, and the funded status and funding progress.

SUPPLEMENTAL INFORMATION

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual	Amended to Actual Variance
	Original	Amended		
Receipts:				
Municipal Electric Utility			\$ 16,106,077	
Municipal Water Utility			7,283,242	
Municipal Communications Utility			8,423,898	
Total Receipts	<u>\$ 48,493,536</u>	<u>\$ 35,893,929</u>	<u>31,813,217</u>	<u>\$ (4,080,712)</u>
Expenditures:				
Municipal Electric Utility			14,733,567	
Municipal Water Utility			4,542,950	
Municipal Communications Utility			9,119,956	
Total Expenditures	<u>46,484,599</u>	<u>34,257,392</u>	<u>28,396,473</u>	<u>(5,860,919)</u>
Change in Net Position	2,008,937	1,636,537	3,416,744	1,780,207
Net Position at Beginning of Year	<u>11,663,499</u>	<u>15,952,901</u>	<u>15,816,207</u>	<u>-</u>
Net Position at End of Year	<u>\$ 13,672,436</u>	<u>\$ 17,589,438</u>	<u>\$ 19,232,951</u>	<u>\$ 1,780,207</u>

See Accompanying Independent Auditors' Report

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2014**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 16,106,077	\$ (148,111)	\$ 15,957,966
Municipal Water Utility	7,283,242	(4,255,446)	3,027,796
Municipal Communications Utility	8,423,898	(328,827)	8,095,071
Total Receipts	<u>31,813,217</u>	<u>(4,732,384)</u>	<u>27,080,833</u>
Expenditures:			
Municipal Electric Utility	14,733,567	311,446	15,045,013
Municipal Water Utility	4,542,950	(2,591,480)	1,951,470
Municipal Communications Utility	9,119,956	(3,364,268)	5,755,688
Total Expenditures	<u>28,396,473</u>	<u>(5,644,302)</u>	<u>22,752,171</u>
Change in Net Position	3,416,744	911,918	4,328,662
Net Position at Beginning of Year	<u>15,816,207</u>	<u>48,894,924</u>	<u>64,711,131</u>
Net Position at End of Year	<u>\$ 19,232,951</u>	<u>\$ 49,806,842</u>	<u>\$ 69,039,793</u>

See Accompanying Independent Auditors' Report

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2014**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures known as functions, not by fund. These 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. All Utility expenditures are included in business type activities function and are required to be budgeted.

**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***

Board of Trustees
Spencer Municipal Utilities – Municipal Communications Utility
Spencer, Iowa 51301

We have audited 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 the financial statements of the business-type activities of Municipal Communications Utility of the City of Spencer, Iowa (Spencer Municipal Utility), Spencer, Iowa as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer 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 Spencer Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Spencer Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 the Utility's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and is not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item 14-II-A that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Spencer Municipal Utilities' Response to Findings

Spencer Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Spencer Municipal Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 the entity'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 Spencer Municipal Utilities 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.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 3, 2015

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part I: Summary of the Independent Auditors' Results:

- (a) An unmodified opinion was issued on the financial statements.
- (a) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (b) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCY:

14-II-A Financial Reporting – During the audit, we identified immaterial amounts of inventory and expenses not initially identified by Spencer Municipal Utilities' internal control. These amounts were either not recorded or not properly recorded in Spencer Municipal Utilities' financial statements.

Recommendation – Spencer Municipal Utility should implement procedures to ensure all accounts are properly identified, classified, and included in Spencer Municipal Utilities' financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2014**

Part III: Other Findings Related to Required Statutory Reporting

III-A-14 Certified Budget – Disbursements during the year ended December 31, 2014 did not exceed the amounts budgeted in the business type activities function.

III-B-14 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-14 Travel Expenses – No expenditures of the Utility’s money for travel expenses of spouses of Utility’s officials or employees were noted.

III-D-14 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jason Remillard, SMU Employee	Maintenance & Repairs	\$ 68 (1)
Owner, Remillard Grafx	Marketing	\$ 9 (1)
Dan Shuck, SMU Employee		
Owner of Accurate Appliance	Fridge	\$ 482 (1)
Duane Barber, Board Member		
Part Owner, Don Pierson Ford	Maintenance & Repairs	\$ 494 (1)
Keri Peterson, SMU Employee		
Owner, Window Fashions & More	Supplies	\$ 467 (1)

(1) These transactions do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the year, per Chapter 362.5(10) of the Code of Iowa.

III-E-14 Bond Coverage – Surety bond coverage of Spencer 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 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility’s investment policy were noted.