

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**Maquoketa, Iowa**

**FINANCIAL STATEMENTS**  
**December 31, 2014**

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**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
UTILITY BOARD OF TRUSTEES  
December 31, 2014**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dawn Paul	Chairperson	December 2017
David Knoebel	Vice-Chairperson	December 2015
Caroline Bybee	Secretary	December 2015
Jan Kahler	Board Member	December 2019
Todd Seifert	Board Member	December 2019

## INDEPENDENT AUDITOR'S REPORT

Utility Board of Trustees  
Maquoketa Municipal Electric Utility  
Maquoketa, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility, a component unit of the City of Maquoketa, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility as of

December 31, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

**Basis of Accounting**

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

**Other Matters**

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Maquoketa Municipal Electric Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended December 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 10 and on page 20 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2015 on our consideration of Maquoketa Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Maquoketa Municipal Electric Utility's internal control over financial reporting and compliance.

*Miner, Gilroy and Meade, CPA PC*

Maquoketa, Iowa  
April 29, 2015

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

**I. INTRODUCTION**

This management discussion and analysis (MD&A) of Maquoketa Municipal Electric Utility's (MMEU) financial performance provides an overview of MMEU's financial activities for the fiscal year ending December 31, 2014. The information in this MD&A should be considered in conjunction with the financial statements that follow this section.

**II. OVERVIEW OF BUSINESS**

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

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

**III. GENERAL OVERVIEW OF UTILITY OPERATIONS**

Governance of MMEU is now vested in a five-member Board appointed by the Mayor of Maquoketa with approval of the City Council. Members of the board of Trustees serve for six-year staggered terms. The Board has complete control of MMEU management and employs 14 full-time employees. MMEU's administrative office is located at City Hall.

MMEU has expanded over the years and currently provides electric service to virtually all parts of Maquoketa and some rural areas to the south of Maquoketa. MMEU presently serves approximately 2,835 residential customers, 664 commercial customers, and 18 industrial customers.

MMEU owns distribution lines and transmission lines. MMEU owns and operates two power plants. Plant 1, or the original plant built in 1919, is on the north side of the City, and presently has the capacity to generate 18,534 KW of power. Plant 2 was built in the City's South Industrial Park along U.S. Highway 61 on the City's south side. Plant 2 has the capacity to generate 5,000 KW of power. The generating units are able to operate on an amalgamation of either diesel fuel or natural gas or on diesel fuel only. Plants 1 and 2 generated 65,200 kWh of power in 2014 or about 0.01% of the total power needs of the City.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

When diesel fuel prices substantially increased in the 1970's, it became more cost effective for the City to purchase electric power at a wholesale rate from private companies that operated coal-fired and nuclear power plants. The City also joined a consortium of other municipally owned electric utilities known as the Resale Power Group of Iowa (R.P.G.I.) in the 1970's. The R.P.G.I. negotiates the contracts for wholesale electric power from private electric companies on behalf of its member utilities. MMEU signed a five-year agreement for the purchase of wholesale electric power with the R.P.G.I. in late 2003, which became effective on January 1, 2004. This contract ended December 31, 2008. MMEU has a contract with WPPI for wholesale electric power. In 2014, MMEU purchased 76,546,423 kWh or 99.99% of its power needs from WPPI.

**IV. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**V. MMEU/CITY AGREEMENTS**

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

**VI. MMEU BUDGET AND RATES**

MMEU has adopted a calendar year budget that reports on a cash basis. WPPI performs a cost of service study to assist the board in rate setting policy. The last rate study by WPPI was in 2014.

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

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

Sales by type of customer account are as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,835	23,636,183
Commercial SGS	664	24,105,126
Power LGS	18	23,990,380
Security Lights	331	592,498

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

**VII. FINANCIAL HIGHLIGHTS**

MMEU's total revenues decreased from \$9,584,427 in 2013 to \$9,233,032 in 2014, a decrease of \$351,395 or 3.67%. The decrease in MMEU revenues were due to capacity payments from WPPI dropping from \$695,631 to \$138,462.

MMEU's total disbursements decreased from \$9,281,483 in 2013 to \$8,431,505 in 2014, a decrease of \$849,978 or 9.15%. The decrease in MMEU disbursements is due mainly to the AMI metering project being completed in 2014.

**VIII. PROGRAM REVENUES**

MMEU generated revenues from the following sources in 2014 and 2013:

	<u>2014</u>	<u>2013</u>
1. Charges for Services:		
Residential	\$ 2,980,797	\$ 2,964,671
Commercial	2,767,100	2,648,170
Power sales	2,469,537	2,559,100
Capacity payments	138,462	695,631
Security lights	73,193	70,987
Sales tax	<u>265,468</u>	<u>258,083</u>
Total charges for services	8,694,557	9,196,642
2. Use of Money/Property	47,158	46,576
3. Miscellaneous	118,631	152,547
4. Other Financing Sources	<u>372,686</u>	<u>188,662</u>
<b>Total Revenues</b>	<b><u>\$ 9,233,032</u></b>	<b><u>\$ 9,584,427</u></b>

**IX. PROGRAM EXPENSES**

A comparison of MMEU 2014 and 2013 disbursements is as follows:

	<u>2014</u>	<u>2013</u>
General Operating	\$ <u>8,431,505</u>	\$ <u>9,281,483</u>
<b>Total Expenses</b>	<b><u>\$ 8,431,505</u></b>	<b><u>\$ 9,281,483</u></b>

The \$849,978 decrease is due to the AMI metering project being completed in 2013.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

**X. MMEU CASH BALANCES OR ASSETS**

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

<u>Fund</u>	<u>Balance 12/31/2014</u>	<u>Balance 12/31/2013</u>
1. General Operating	\$ 4,698,609	\$ 3,901,629
2. Electric Surplus	180,085	177,510
3. Customer Deposits	<u>74,023</u>	<u>72,051</u>
<b>Total</b>	<b><u>\$ 4,952,717</u></b>	<b><u>\$ 4,151,190</u></b>

The General Operating Fund is divided into five accounts.

<u>Account</u>	<u>Balance 12/31/2014</u>	<u>Balance 12/31/2013</u>
1. Operating Account	\$ 4,240,295	\$ 3,503,534
2. Insurance Account	68,913	68,694
3. Vehicle Reserve - Distribution	323,678	283,678
4. Economic Development	40,000	20,000
5. Heavy Equipment	<u>25,723</u>	<u>25,723</u>
<b>Total</b>	<b><u>\$ 4,698,609</u></b>	<b><u>\$ 3,901,629</u></b>

**XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES**

	<u>2014</u>	<u>2013</u>
Starting Cash Balance – All Funds	\$ 4,151,190	\$ 3,848,246
Total Revenues	9,233,032	9,584,427
Total Expenses	<u>8,431,505</u>	<u>9,281,483</u>
Ending Cash Balance – All Funds	<b><u>\$ 4,952,717</u></b>	<b><u>\$ 4,151,190</u></b>

**XII. SIGNIFICANT MMEU SYSTEM & EQUIPMENT IMPROVEMENTS**

MMEU completed the following system improvement project in 2014:

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

**XIII. ANALYSIS OF OVERALL FINANCIAL POSITION**

MMEU's overall financial position increased by \$801,527 during 2014.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

**XIV. ANALYSIS OF BALANCES AND TRANSACTIONS**

The excess of receipts over disbursements was due to Administration and Distribution Budgets were underspent and Sale of Power exceeded budget.

**XV. ANALYSIS OF VARIATIONS BETWEEN BUDGET AND ACTUAL AMOUNTS**

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

	<u>Budget</u>	<u>Actual</u>
Disbursements	\$8,804,384	\$8,431,505

The difference resulted from variations in the following items:

1. Administration
  - a. Sales tax under budget because the amount budgeted was too high.
  - b. Workers compensation insurance under budget due to premiums being less than expected due to a low experience factor.
2. Power Plant
  - a. Fuel oil under budget because of non-generation.
  - b. Salaries were under budget because the plant was not closed and there was not buyout of the two employees.
3. Distribution
  - a. 4kV system upgrade under budget due to lower expenses than anticipated.
  - b. Salaries under budget because the Distribution Superintendent resigned in April.
  - c. Contract labor under budget due to the part-time meter reader position ending in February because of the AMI system going live. The budget was based on 2013 expenditures which were high because of boring, grading, and large tree removal that did not occur in 2014.
  - d. Materials and hardware under budget because the 2014 budget was based on 2013 which was inflated because of the purchase of LED security lights.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014**

**XVI. CURRENT KNOWN FACTS – EFFECT ON FINANCIAL POSITION**

MMEU does not anticipate any significant changes in operating expenses, revenues, or net assets in 2015. The largest capital expenditure is \$230,000 for an Aerial Truck. A cost of service study is planned and could result in rates for residential, commercial, and industrial customers being changed, and TOD/TOU rates being added. The MMEU Board of Trustees continues to discuss the merits of cash vs. bonding for forthcoming capital projects, such as the \$2,100,000 Allen Street substation upgrade in 2019.

MMEU has signed a long term power purchase agreement with WPPI (Wisconsin Public Power Incorporated). The agreement started January 1, 2009 and remains in effect until December 31, 2037. While power costs can vary in the next year, the variables will be based on load and the economy. For 2015, WPPI increased electric rates to its members an average of 1.9%.

MMEU will continue to make improvements to the distribution system.

**XVII. FINAL COMMENTS**

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

## **BASIC FINANCIAL STATEMENTS**

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES**  
**PROPRIETARY FUNDS**  
**As of and for the Year Ended December 31, 2014**

	Enterprise
Operating receipts:	
Charges for services	\$ 8,694,557
Use of money and property	47,158
Miscellaneous	118,631
Total operating receipts	8,860,346
Operating disbursements:	
General:	
Power purchased	6,312,427
Employee expense	923,004
Contract labor	13,383
Repairs and maintenance	167,352
Supplies and services	89,079
Capital outlay	15,468
Sales and use tax	271,395
Gas and oil	29,457
Insurance	254,272
Franchise fee	166,881
Economic development	5,000
Energy conservation	11,731
WPPI community relations	4,233
WPPI conservation grants	7,998
Contribution in aid rebates	2,846
WPPI shared savings	22,378
Charitable giving	11,750
Environmental	-
AMI project	6,525
Customer deposits	31,773
Utilities	30,816
Miscellaneous	53,737
Total operating disbursements	8,431,505
Excess of receipts over disbursements	428,841
Other financing sources (uses):	
Other financing sources	372,686
Operating transfers in	60,000
Operating transfers out	(60,000)
Total other financing sources (uses)	372,686
Net change in cash balances	801,527
Cash balances beginning of year	4,151,190
Cash balances end of year	\$ 4,952,717
Cash basis net position	
Unrestricted	\$ 4,952,717

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

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

As of and for the Year Ended December 31, 2014

	<u>Enterprise Funds</u>		
	<u>General Operating</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:			
Charges for services	\$ 8,694,557	\$ -	\$ 8,694,557
Use of money and property	44,583	2,575	47,158
Miscellaneous	84,886	33,745	118,631
Total operating receipts	<u>8,824,026</u>	<u>36,320</u>	<u>8,860,346</u>
Operating disbursements:			
Power purchased	6,312,427	-	6,312,427
Employee expense	923,004	-	923,004
Contract labor	13,383	-	13,383
Repairs and maintenance	167,352	-	167,352
Supplies and services	89,079	-	89,079
Capital outlay	15,468	-	15,468
Sales and use tax	271,395	-	271,395
Gas and oil	29,457	-	29,457
Insurance	254,272	-	254,272
Franchise fee	166,881	-	166,881
Economic development	5,000	-	5,000
Energy conservation	11,731	-	11,731
WPPI community relations	4,233	-	4,233
WPPI conservation grants	7,998	-	7,998
Contribution in aid rebates	2,846	-	2,846
WPPI shared savings	22,378	-	22,378
Charitable giving	11,750	-	11,750
Environmental	-	-	-
AMI project	6,525	-	6,525
Customer deposits	-	31,773	31,773
Utilities	30,816	-	30,816
Miscellaneous	53,737	-	53,737
Total operating disbursements	<u>8,399,732</u>	<u>31,773</u>	<u>8,431,505</u>
Excess of receipts over disbursements	<u>424,294</u>	<u>4,547</u>	<u>428,841</u>
Other financing sources (uses):			
Other financing sources	372,686	-	372,686
Operating transfers in	60,000	-	60,000
Operating transfers out	(60,000)	-	(60,000)
Total other financing sources (uses)	<u>372,686</u>	<u>-</u>	<u>372,686</u>
Net change in cash balances	796,980	4,547	801,527
Cash balance beginning of year	<u>3,901,629</u>	<u>249,561</u>	<u>4,151,190</u>
Cash balance end of year	<u>\$ 4,698,609</u>	<u>\$ 254,108</u>	<u>\$ 4,952,717</u>
Cash basis net position			
Unrestricted	<u>\$ 4,698,609</u>	<u>\$ 254,108</u>	<u>\$ 4,952,717</u>

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The financial statements include only the funds of the Maquoketa Municipal Electric Utility (the Utility). The Utility has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. Based on the above criteria, the Utility has determined that there are no potential component units which must be included in the Utility's financial statements as of and for the year ended December 31, 2014.

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

**B. Basis of Presentation**

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

Net position is reported in two categories:

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

*Unrestricted net position* consists of net position that does not meet the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

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

The Utility reports the following major enterprise funds:

*General Operating Fund*

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Bond Sinking Fund*

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

**C. Measurement Focus and Basis of Accounting**

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

*Budgets and Budgetary Accounting*

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

**NOTE 2 - DEPOSITS AND POOLED INVESTMENTS**

The Utility's deposits in banks at December 31, 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 state statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014**

**NOTE 3 - COMPENSATED ABSENCES**

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

<u>Type of Benefit</u>	<u>Amount at December 31, 2014</u>
Vacation	\$ 59,807
Sick leave	222,691
Compensatory time	<u>972</u>
Total	<u>\$ 283,470</u>

**NOTE 4 - INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended December 31, 2014 is as follows:

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

**NOTE 5 - PENSION AND RETIREMENT BENEFITS**

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of the covered salary. Certain employees in special risk occupations and the Utility contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2014, 2013, and 2012, were \$67,075, \$72,576, and \$70,886, respectively, and each equal to the required contributions for each year.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 6 - RISK MANAGEMENT**

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

**NOTE 7 - RELATED PARTY TRANSACTIONS**

As stated in Note 1, Maquoketa Municipal Electric Utility is a component unit of the City of Maquoketa, Iowa. The City pays the Utility for electric service to City-owned facilities and also pays the Utility for labor performed by Utility employees on city property. For the year ended December 31, 2014, the utility received the following amounts from the City:

Electric service	\$ 317,289
Labor	<u>6,226</u>
Total	<u>\$ 323,515</u>

**NOTE 8 - SHARED SAVINGS AGREEMENT**

The Utility entered into a shared savings funding agreement with WPPI Energy, a Wisconsin municipal electric company (WPPI). WPPI provides money to members to contribute to retail customer's eligible energy efficiency and construction projects. For fiscal year ending December 31, 2014, the Utility received \$11,503 from WPPI which they lent to Maquoketa Family Clinics, P.C. and Ohnward Fine Arts Center in the amounts of \$9,003 and \$2,500, respectively. The Utility acts as a pass through agent. The terms of the loan payable to WPPI is identical with the loans receivable from the entities listed below. The agreements requires a total monthly payments of \$1,009, with the last agreement expiring on July 31, 2019; interest is currently at 2%. In the event of default, WPPI and the Utility will share equally any shortfalls.

Note Receivable:	
Maquoketa Area Hospitality Group LLC	\$ 33,962
Maquoketa Family Clinics, P.C.	8,214
Ohnward Fine Arts Center	<u>2,105</u>
Total Note Receivable	<u>\$ 44,281</u>

Note Payable:	
WPPI	<u>\$ 43,474</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Note Receivable	\$ <u>43,653</u>	\$ <u>11,503</u>	\$ <u>10,875</u>	\$ <u>44,281</u>
Note Payable	\$ <u>42,846</u>	\$ <u>11,503</u>	\$ <u>10,875</u>	\$ <u>43,474</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

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

**NOTE 10 - SUBSEQUENT EVENTS**

The Utility has evaluated events and transactions occurring after December 31, 2014 for potential items requiring to be recognized or disclosed in the financial statements. Subsequent events have been evaluated through April 29, 2015, the date of which the financial statements were available to be issued.

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

**REQUIRED SUPPLEMENTAL INFORMATION**

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES**  
**ACTUAL TO BUDGET**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended December 31, 2014**

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Variance Final to Actual Favorable (Unfavorable)</u>
		<u>Original Budget</u>	<u>Final Budget</u>	
Receipts:				
Use of money and property	\$ 47,158	\$ 22,935	\$ 22,935	\$ 24,223
Charges for services	8,694,557	8,081,512	8,081,512	613,045
Miscellaneous	118,631	828,568	828,568	(709,937)
Total receipts	<u>8,860,346</u>	<u>8,933,015</u>	<u>8,933,015</u>	<u>(72,669)</u>
Disbursements	<u>8,431,505</u>	<u>8,804,384</u>	<u>8,804,384</u>	<u>372,879</u>
Excess of receipts over disbursements	<u>428,841</u>	<u>128,631</u>	<u>128,631</u>	<u>300,210</u>
Other financing sources (uses):				
Other financing sources	372,686	-	-	372,686
Operating transfers in	60,000	60,000	60,000	-
Operating transfers out	(60,000)	(60,000)	(60,000)	-
Total other financing sources (uses)	<u>372,686</u>	<u>-</u>	<u>-</u>	<u>372,686</u>
Net change in cash balances	801,527	128,631	128,631	672,896
Cash balance beginning of year	<u>4,151,190</u>	<u>4,151,190</u>	<u>4,151,190</u>	<u>-</u>
Cash balance end of year	<u>\$ 4,952,717</u>	<u>\$ 4,279,821</u>	<u>\$ 4,279,821</u>	<u>\$ 672,896</u>
Cash basis net position				
Unrestricted	<u>\$ 4,952,717</u>	<u>\$ 4,279,821</u>	<u>\$ 4,279,821</u>	<u>\$ 672,896</u>

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION -  
BUDGETARY REPORTING  
December 31, 2014**

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended December 31, 2014, disbursements did not exceed the amounts budgeted in the business type activities functions.

**OTHER SUPPLEMENTAL INFORMATION**

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES**  
**NONMAJOR ENTERPRISE FUNDS**  
**As of and for the Year Ended December 31, 2014**

	<b>Electric Surplus</b>	<b>Customer Deposits</b>	<b>Total</b>
Operating receipts:			
Use of money and property	\$ 2,575	\$ -	\$ 2,575
Miscellaneous	-	33,745	33,745
Total operating receipts	2,575	33,745	36,320
Operating disbursements:			
Customer deposits	-	31,773	31,773
Bond principal payment	-	-	-
WPPI deposit	-	-	-
Total disbursements	-	31,773	31,773
Excess of receipts over disbursements	2,575	1,972	4,547
Other financing sources (uses):			
Other financing sources	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in cash balances	2,575	1,972	4,547
Cash balance beginning of year	177,510	72,051	249,561
Cash balance end of year	\$ 180,085	\$ 74,023	\$ 254,108
Cash basis net position			
Unrestricted	\$ 180,085	\$ 74,023	\$ 254,108

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**  
**GENERAL OPERATING FUND**  
**As of and for the Year Ended December 31, 2014**

	<b>Operating Account</b>	<b>Insurance Account</b>
Operating receipts:		
Charges for services:		
Residential	\$ 2,980,797	\$ -
Comercial	2,767,100	-
Security lights	73,193	-
Capacity payments	138,462	-
Power sales	2,469,537	-
Sales Tax	265,468	-
	8,694,557	-
Use of money and property:		
Interest on investments	18,201	372
Miscellaneous	26,010	-
	44,211	372
Miscellaneous:		
Refunds	5,041	-
Miscellaneous	79,845	-
	84,886	-
Total operating receipts	8,823,654	372
Operating disbursements:		
Administration	1,102,504	-
Power plant	6,559,156	-
Distribution	737,919	153
Total operating disbursements	8,399,579	153
Excess of receipts over disbursements	424,075	219
Other financing sources (uses):		
Other financing sources - grants, loans, shared savings	372,686	-
Transfers in (out):		
Operating account	-	-
Vehicle reserve - distribution	(40,000)	-
Economic development	(20,000)	-
Heavy equipment account	-	-
Total other financing sources (uses)	312,686	-
Net change in cash balances	736,761	219
Cash balance, beginning of year	3,503,534	68,694
Cash balance end of year	\$ 4,240,295	\$ 68,913

<u>Vehicle Reserve - Distribution</u>	<u>Economic Development</u>	<u>Heavy Equipment Account</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 2,980,797
-	-	-	2,767,100
-	-	-	73,193
-	-	-	138,462
-	-	-	2,469,537
-	-	-	265,468
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,694,557</u>
-	-	-	18,573
<u>-</u>	<u>-</u>	<u>-</u>	<u>26,010</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>44,583</u>
-	-	-	5,041
<u>-</u>	<u>-</u>	<u>-</u>	<u>79,845</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>84,886</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,824,026</u>
-	-	-	1,102,504
-	-	-	6,559,156
<u>-</u>	<u>-</u>	<u>-</u>	<u>738,072</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,399,732</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>424,294</u>
-	-	-	372,686
40,000	20,000	-	60,000
-	-	-	(40,000)
-	-	-	(20,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>40,000</u>	<u>20,000</u>	<u>-</u>	<u>372,686</u>
40,000	20,000	-	796,980
283,678	20,000	25,723	3,901,629
<u>\$ 323,678</u>	<u>\$ 40,000</u>	<u>\$ 25,723</u>	<u>\$ 4,698,609</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY**  
**SCHEDULE OF DISBURSEMENTS**  
**OPERATING ACCOUNT**  
**Year Ended December 31, 2014**

## Administration:

Salaries	\$ 208,310
FICA and IPERS	33,430
Insurance	207,901
Sales and use tax	271,395
Franchise fee	166,881
Materials and repairs	22,006
Postage	15,750
Meeting expense	6,391
Dues	29,932
Office supplies	12,188
Professional fees	27,275
Utilities	6,815
Advertising	5,224
City Hall shared services	13,679
Energy conservation	11,731
WPPI community relations	4,233
WPPI conservation grants	7,998
Economic development	5,000
Contribution in aid rebates	2,846
WPPI shared savings	22,378
Charitable giving	11,750
Miscellaneous	9,391
Total administration	1,102,504

## Power Plant:

Salaries	135,065
FICA and IPERS	22,180
Purchased power	6,312,427
Insurance	46,218
Materials and repairs	14,183
Supplies	4,688
Utilities	7,470
Natural gas	13,491
Lubricants	3,434
Total power plant	6,559,156

MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
SCHEDULE OF DISBURSEMENTS  
OPERATING ACCOUNT  
Year Ended December 31, 2014

Distribution:		
Salaries	\$	451,729
FICA and IPERS		72,290
Contract labor		13,383
Materials and repairs		76,579
Meeting expense		2,799
Supplies		15,499
Utilities		16,531
Gas and oil		12,532
Tools		392
Conductor		14,593
Transformers		30,726
4kV System Upgrade		15,468
AMI project		6,525
Meters		8,873
Total distribution		<u>737,919</u>
Total disbursements	\$	<u>8,399,579</u>

**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Utility Board of Trustees  
Maquoketa Municipal Electric Utility  
Maquoketa, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, each major fund, and the aggregate remaining fund information of Maquoketa Municipal Electric Utility, as of and for the year ended December 31, 2014, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated April 29, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Maquoketa Municipal Electric Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maquoketa Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Maquoketa Municipal Electric Utility's internal control.

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Responses as item II-A-14 to be a significant deficiency.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an effect on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### Maquoketa Municipal Electric Utility's Responses to Findings

Maquoketa Municipal Electric Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Maquoketa Municipal Electric Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

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

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

*Miner, Gilroy and Meade, CPA PC*

Maquoketa, Iowa  
April 29, 2015

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2014**

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2014**

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-14 Financial Statement Preparation

Criteria - A properly designed system of internal control over financial reporting includes the preparation of the entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. The Utility engages Miner, Gilroy and Meade, CPA PC (MGM) to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, MGM cannot be considered part of the Utility's internal control system. To establish proper internal control over the preparation of its financial statements, including disclosures, the Utility should design and implement a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of applicable general accepted accounting principles and knowledge of the Utility's activities and operations.

Condition - The Utility has not implemented procedures, to the degree necessary, to perform a review and assume responsibility of the Utility's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are less than material, but more than inconsequential, would be identified and corrected.

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

Cause - The Utility has relied on independent auditor's to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated. We recognize that with limited number of office employees, preparation of the financial statements is difficult.

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

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

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2014**

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

- III-A-14 Certified Budget - Disbursements during the year ended December 31, 2014 did not exceed amounts budgeted.
- III-B-14 Questionable Disbursements - We noted no disbursements that we believe would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-14 Travel Expense - No disbursements of Utility money for travel expenses of spouses of utility officials or spouses of utility employees were noted.
- III-D-14 Business Transactions - We noted no business transactions between the Utility and Utility officials or employees that appear to represent a conflict of interest.
- III-E-14 Bond Coverage - Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- III-F-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 Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- III-H-14 Revenue Notes - During the year ended December 31, 2014, the Utility did not have any outstanding revenue notes.
- III-I-14 Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.