

**Story City Municipal Electric Utility
Story City, Iowa**

FINANCIAL REPORT

December 31, 2014

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Story City Municipal Electric Utility
OFFICIALS
December 31, 2014

BOARD OF TRUSTEES

Term expires

Pat Faga, Chairman
Linda Narigon, Vice Chairman
Dan Webster, Secretary

June 1, 2016
June 1, 2020
June 1, 2018

ADMINISTRATOR

Jeff Ishmael



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Story City Municipal Electric Utility
Story City, Iowa

We have audited the accompanying financial statements of Story City Municipal Electric Utility, a component unit of the City of Story City, Iowa, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 financial position of Story City Municipal Electric Utility as of December 31, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015 on our consideration of Story City Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 27, 2015

Story City Municipal Electric Utility MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Story City Municipal Electric Utility, we offer readers of the financial statements this narrative overview and analysis of the Utility's financial performance during the fiscal years ended December 31, 2014 and 2013. Please read it in conjunction with the Utility's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the Utility, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Utility report information of the Utility using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheets include all of the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Utility's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in equity. These statements measure the success of the Utility operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its electricity revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets increased by \$155,880 to \$10,001,367
- Total noncurrent assets whose use is limited increased by \$287,013 to \$1,882,505
- Total property and equipment decreased by \$533,388 to \$6,649,257
- Total net position increased by \$115,591 to \$9,649,048
- Total revenues increased by \$246,352, or 5%, to \$5,179,679
- Expenses increased by \$312,562, or 7% to \$5,017,126

Financial Analysis of the Utility

The balance sheets and the statements of revenues, expenses, and changes in equity report the equity of the Utility and the changes in them. The Utility's equity, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Utility's equity are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

Balance Sheets

A summary of the Utility's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	December 31		
	2014	2013	2012
Current assets	\$ 1,469,605	\$1,067,350	\$ 955,003
Noncurrent assets whose use is limited	1,882,505	1,595,492	1,085,652
Property and equipment	<u>6,649,257</u>	<u>7,182,645</u>	<u>7,754,833</u>
Total assets	<u>\$10,001,367</u>	<u>\$9,845,487</u>	<u>\$9,795,488</u>
Current liabilities	\$ <u>352,319</u>	\$ <u>312,030</u>	\$ <u>458,739</u>
Net investment in capital assets	\$ 6,649,257	\$7,182,645	\$7,754,833
Unrestricted	<u>2,999,791</u>	<u>2,350,812</u>	<u>1,581,916</u>
Total net position	<u>\$ 9,649,048</u>	<u>\$9,533,457</u>	<u>\$9,336,749</u>

As depicted in Table 1, total assets increased in fiscal year 2014 to \$10,001,367.

Revenues, Expenses, and Changes in Net Position

A summary of the Utility's historical revenues, expenses, and changes in net position is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year ended December 31		
	2014	2013	2012
Electricity revenue	\$5,158,590	\$4,914,269	\$4,976,385
Other revenue	<u>21,089</u>	<u>19,058</u>	<u>18,654</u>
Total revenues	<u>5,179,679</u>	<u>4,933,327</u>	<u>4,995,039</u>
Salaries	474,469	464,793	489,963
Other expenses	3,899,278	3,610,814	3,671,300
Depreciation expense	<u>643,379</u>	<u>628,957</u>	<u>557,719</u>
Total expenses	<u>5,017,126</u>	<u>4,704,564</u>	<u>4,718,982</u>
Operating income	<u>162,553</u>	<u>228,763</u>	<u>276,057</u>
Interest income	8,349	5,712	6,261
Service donated to municipality	<u>(55,311)</u>	<u>(37,767)</u>	<u>(42,065)</u>
Total nonoperating gains (losses)	<u>(46,962)</u>	<u>(32,055)</u>	<u>(35,804)</u>
Change in net position	115,591	196,708	240,253
Total net position, beginning	<u>9,533,457</u>	<u>9,336,749</u>	<u>9,096,496</u>
Total net position, ending	<u>\$9,649,048</u>	<u>\$9,533,457</u>	<u>\$9,336,749</u>

Operating and Financial Performance

The following summarizes the Utility's statements of revenues, expenses and changes in net position between December 31, 2014 and 2013.

Electricity Revenue: Electricity revenue is a product of volume and price increases.

Volume: During the year ended December 31, 2014, the number of Utility customers remained very comparable with 2013. Electricity charges increased by \$244,321, or 5% in 2014.

Price Increase: In early 2005, the Utility initiated an electricity rate study and implemented price increases to reflect the Utility's increased cost of electricity. Since 2005, the Utility has not implemented any price increases.

Other Revenue

Other revenue increased to \$21,089 in 2014 compared to \$19,058 in 2013.

Expenses

Approximately 10% of Utility's expenses are for salaries. Total salaries increased by \$9,676, or 2% in 2014.

Approximately 80% of Utility's expenses are for other expenses. Total other expenses increased by \$288,464, or 8% in 2014. The most significant increase related to purchased power.

Approximately 10% of Utility's expenses relate to depreciation expense. Depreciation expense increased to \$643,379 in 2014 from \$628,957 in 2013.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased in 2014 to \$(46,962) compared to \$(32,055) in 2013.

Property and Equipment

At the end of 2014, the Utility had \$6,649,257 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. During fiscal year 2014, \$109,991 was spent to acquire new property and equipment.

A summary of the Utility's property and equipment is presented in Table 3.

Table 3
Property and Equipment

	December 31		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Production	\$ 8,146,024	\$ 8,146,024	\$ 8,169,546
Transmission	1,813,013	1,813,013	1,813,013
Distribution	<u>6,803,595</u>	<u>6,712,696</u>	<u>6,714,495</u>
Subtotal	16,762,632	16,671,733	16,697,054
Less accumulated depreciation	<u>10,113,375</u>	<u>9,489,088</u>	<u>8,942,221</u>
Property and equipment	<u>\$ 6,649,257</u>	<u>\$ 7,182,645</u>	<u>\$ 7,754,833</u>

Contacting Story City Municipal Electric Utility's Management

This financial report is designed to provide users with a general overview of the Utility's finances and to demonstrate the Utility's accountability. If you have questions about this report or need additional information, contact Story City Municipal Electric Utility at (515) 733-4691 or write care of: Administrator, Story City Municipal Electric Utility, 505 Market Street, Story City, Iowa 50248.

**Story City Municipal Electric Utility
BALANCE SHEETS**

	December 31	
ASSETS	2014	2013
CURRENT ASSETS		
Cash	\$ 440,425	\$ 315,313
Customer receivables, less allowance for uncollectible accounts 2014 and 2013 \$15,000	511,752	424,882
Loan receivable	200,000	-
Inventories	305,028	313,755
Prepaid insurance	12,400	13,400
Total current assets	<u>1,469,605</u>	<u>1,067,350</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,882,505	1,595,492
PROPERTY AND EQUIPMENT	16,762,632	16,671,733
Less accumulated depreciation	<u>10,113,375</u>	<u>9,489,088</u>
Total property and equipment	<u>6,649,257</u>	<u>7,182,645</u>
 Totals	 <u>\$10,001,367</u>	 <u>\$ 9,845,487</u>
	LIABILITIES AND NET POSITION	
CURRENT LIABILITIES		
Accounts payable	\$ 308,720	\$ 269,623
Accrued expenses	<u>43,599</u>	<u>42,407</u>
Total current liabilities	<u>352,319</u>	<u>312,030</u>
NET POSITION		
Net investment in capital assets	6,649,257	7,182,645
Unrestricted	<u>2,999,791</u>	<u>2,350,812</u>
Total net position	<u>9,649,048</u>	<u>9,533,457</u>
 Totals	 <u>\$10,001,367</u>	 <u>\$ 9,845,487</u>

Story City Municipal Electric Utility
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended December 31	
	2014	2013
REVENUES		
Electricity revenue		
Residential	\$1,877,715	\$1,815,351
Commercial	751,194	681,534
Large power	<u>2,529,681</u>	<u>2,417,384</u>
	5,158,590	4,914,269
Other	21,089	19,058
Total revenues	<u>5,179,679</u>	<u>4,933,327</u>
EXPENSES		
Production	3,932,695	3,653,226
Distribution	639,103	646,051
Administration and general	<u>445,328</u>	<u>405,287</u>
Total expenses	<u>5,017,126</u>	<u>4,704,564</u>
Operating income	<u>162,553</u>	<u>228,763</u>
NONOPERATING GAINS (LOSSES)		
Interest income	8,349	5,712
Service donated to municipality	<u>(55,311)</u>	<u>(37,767)</u>
Total nonoperating gains (losses)	<u>(46,962)</u>	<u>(32,055)</u>
Change in net position	115,591	196,708
TOTAL NET POSITION		
Beginning	<u>9,533,457</u>	<u>9,336,749</u>
Ending	<u>\$9,649,048</u>	<u>\$9,533,457</u>

See Notes to Financial Statements.

**Story City Municipal Electric Utility
STATEMENTS OF CASH FLOWS**

	Year ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$5,016,409	\$4,839,297
Cash paid to suppliers for goods and services	(3,849,262)	(3,749,939)
Cash paid to employees for services	(474,469)	(464,793)
Other operating revenue received	<u>21,089</u>	<u>19,058</u>
Net cash provided by operating activities	<u>713,767</u>	<u>643,623</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	<u>(109,991)</u>	<u>(56,769)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	8,349	5,712
Payment for issuance of loan receivable	<u>(200,000)</u>	<u>—</u>
Net cash provided by (used in) investing activities	<u>(191,651)</u>	<u>5,712</u>
NET INCREASE IN CASH	412,125	592,566
CASH		
Beginning	<u>1,910,805</u>	<u>1,318,239</u>
Ending	<u>\$2,322,930</u>	<u>\$1,910,805</u>

**Story City Municipal Electric Utility
STATEMENTS OF CASH FLOWS (continued)**

	Year ended December 31	
	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 162,553	\$ 228,763
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	643,379	628,957
Service donated to municipality	(55,311)	(37,767)
Changes in assets and liabilities		
(Increase) in customer receivables	(86,870)	(37,205)
Decrease in inventories	8,727	8,384
(Increase) decrease in prepaid insurance	1,000	(800)
Increase (decrease) in accounts payable	39,097	(149,639)
Increase in accrued expenses	1,192	2,930
Net cash provided by operating activities	<u>\$ 713,767</u>	<u>\$ 643,623</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 440,425	\$ 315,313
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,882,505	1,595,492
Total per statement of cash flows	<u>\$2,322,930</u>	<u>\$1,910,805</u>

See Notes to Financial Statements.

**Story City Municipal Electric Utility
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Story City Municipal Electric Utility is the municipal electric utility of the City of Story City, Iowa, organized under Chapter 388, Code of Iowa, not subject to taxes on income. The Utility is governed by a three member Board of Trustees.

The financial statements of the Utility are presented in accordance with the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission.

Reporting Entity

For financial reporting purposes, Story City Municipal Electric Utility has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. 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. These criteria also include organizations that are fiscally dependent on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

The Utility is includable as a component unit within the City of Story City, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Utility is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Utility is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to utility proprietary funds of a governmental entity. The Utility uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

The Utility has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

**Story City Municipal Electric Utility
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Utility is five to forty years.

Sales Tax

The Utility reports electricity revenues subject to sales tax on the net basis which excludes sales tax collections from gross electricity revenues.

Net Position

Net position is presented in the following three components:

Net investment in capital assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the long-term debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

Restricted net position consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted

Unrestricted net position has no externally imposed restrictions on use.

Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of utility services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Interest Income

Interest income is reported as nonoperating gains.

Credit Policy

The Utility grants credit to customers, substantially all of whom are located in Story City and surrounding areas.

Accounting Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Story City Municipal Electric Utility
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS

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

As to interest rate risk, the Utility's investment policy limits the investment of operating funds 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.

NOTE 3 LOAN RECEIVABLE

During the year ended December 31, 2014, the Utility entered into a development agreement with the City of Story City, Iowa. The agreement stipulated the Utility issue a loan to the City in the amount of \$200,000. The loan, dated June, 2014, is unsecured and noninterest bearing. The purpose of the loan was to allow the City to assist a developer with the purchase and development of certain real estate to achieve subsequent business recruitment and resulting economic development to the area.

The development agreement also stipulated the City of Story City, Iowa, enter into a separate agreement with the developer requiring the developer to reimburse the City, in an amount equal to the original loan, when the constructed real estate is subsequently sold to a new business locating in Story City, Iowa. Subsequent to this transaction, the development agreement requires the City to reimburse the Utility the same amount. As of December 31, 2014, the Utility anticipates the receipt of payment on this loan receivable during the 2015 year. Accordingly, the loan receivable is reported on the balance sheets as a current asset at December 31, 2014.

NOTE 4 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation is as follows:

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Production	\$ 8,146,024	\$ 5,614,438	\$ 8,146,024	\$5,297,219
Transmission	1,813,013	1,423,041	1,813,013	1,350,521
Distribution	<u>6,803,595</u>	<u>3,075,896</u>	<u>6,712,696</u>	<u>2,841,348</u>
Totals	<u>\$16,762,632</u>	<u>\$10,113,375</u>	<u>\$16,671,733</u>	<u>\$9,489,088</u>

**Story City Municipal Electric Utility
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended December 31, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 8,146,024	\$ -	\$ -	\$ 8,146,024
Transmission	1,813,013	-	-	1,813,013
Distribution	<u>6,712,696</u>	<u>109,991</u>	<u>19,092</u>	<u>6,803,595</u>
Totals	16,671,733	109,991	19,092	16,762,632
Less accumulated depreciation	<u>(9,489,088)</u>	<u>(643,379)</u>	<u>(19,092)</u>	<u>(10,113,375)</u>
Net property and equipment	<u>\$ 7,182,645</u>	<u>\$ (533,388)</u>	<u>\$ -</u>	<u>\$ 6,649,257</u>

A summary of changes in property and equipment for the year ended December 31, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 8,169,546	\$ 72,356	\$ 95,878	\$ 8,146,024
Transmission	1,813,013	-	-	1,813,013
Distribution	<u>6,714,495</u>	<u>50,945</u>	<u>52,744</u>	<u>6,712,696</u>
Totals	16,697,054	123,301	148,622	16,671,733
Less accumulated depreciation	<u>(8,942,221)</u>	<u>(628,957)</u>	<u>(82,090)</u>	<u>(9,489,088)</u>
Net property and equipment	<u>\$ 7,754,833</u>	<u>\$ (505,656)</u>	<u>\$ 66,532</u>	<u>\$ 7,182,645</u>

NOTE 5 DEFINED BENEFIT PENSION PLAN

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, P.O. Box 9117, Des Moines, Iowa 50306-9117.

At December 31, 2014, regular plan members were required to contribute 5.95% of their annual salary and the Utility was required to contribute 8.93% of annual covered 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 \$42,998, \$42,129 and \$41,345, respectively, equal to the required contributions for each year.

**Story City Municipal Electric Utility
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 MAJOR CUSTOMER

Electricity revenue for the years ended December 31, 2014 and 2013 includes revenue from the following major customer which accounted for 10% or more of the total electricity revenue of the Utility for those years.

<u>Customer</u>	Electricity revenue Year ended December 31	
	2014	2013
Customer A	\$ <u>891,715</u>	\$ <u>844,046</u>
	Customer receivable December 31	
<u>Customer</u>	2014	2013
Customer A	\$ <u>63,221</u>	\$ <u>59,725</u>

NOTE 7 UTILITY RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. 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.



INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Story City Municipal Electric Utility
Story City, Iowa

We have audited the financial statements of Story City Municipal Electric Utility as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated February 27, 2015, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 27, 2015

**Story City Municipal Electric Utility
SUMMARY OF PROPERTY AND EQUIPMENT AND
ACCUMULATED DEPRECIATION**

	Property and equipment			December 31, 2014
	January 1, 2014	Additions	Deletions	
PRODUCTION				
Structures and improvements	\$ 1,455,034	\$ -	\$ -	\$ 1,455,034
Prime movers and generators	6,552,892	-	-	6,552,892
Accessory electrical equipment	72,356	-	-	72,356
Miscellaneous power plant equipment	<u>65,742</u>	<u>-</u>	<u>-</u>	<u>65,742</u>
Total production	<u>8,146,024</u>	<u>-</u>	<u>-</u>	<u>8,146,024</u>
TRANSMISSION				
Station equipment	1,569,187	-	-	1,569,187
Overhead interconnection line	<u>243,826</u>	<u>-</u>	<u>-</u>	<u>243,826</u>
Total transmission	<u>1,813,013</u>	<u>-</u>	<u>-</u>	<u>1,813,013</u>
DISTRIBUTION				
Land	5,000	-	-	5,000
Structures and improvements	1,727,099	-	-	1,727,099
Poles and fixtures	279,196	3,461	1,188	281,469
Overhead conductors and devices	421,036	-	-	421,036
Underground conductors and devices	1,422,021	9,557	-	1,431,578
Transformers	1,414,777	42,270	8,429	1,448,618
Services and meters	360,840	12,806	-	373,646
Security lights leased	14,784	283	-	15,067
Street lighting system	376,191	-	-	376,191
Transportation equipment	<u>691,752</u>	<u>41,614</u>	<u>9,475</u>	<u>723,891</u>
Total distribution	<u>6,712,696</u>	<u>109,991</u>	<u>19,092</u>	<u>6,803,595</u>
Totals	<u>\$16,671,733</u>	<u>\$ 109,991</u>	<u>\$ 19,092</u>	<u>\$16,762,632</u>

Accumulated depreciation			
January 1, 2014	Additions	Deletions	December 31, 2014
\$ 675,564	\$ 50,042	\$ -	\$ 725,606
4,614,533	248,544	-	4,863,077
-	12,059	-	12,059
<u>7,122</u>	<u>6,574</u>	<u>-</u>	<u>13,696</u>
<u>5,297,219</u>	<u>317,219</u>	<u>-</u>	<u>5,614,438</u>
1,144,894	62,767	-	1,207,661
<u>205,627</u>	<u>9,753</u>	<u>-</u>	<u>215,380</u>
<u>1,350,521</u>	<u>72,520</u>	<u>-</u>	<u>1,423,041</u>
-	-	-	-
374,205	69,084	-	443,289
195,113	8,410	1,188	202,335
296,146	12,631	-	308,777
535,795	42,804	-	578,599
523,173	42,951	8,429	557,695
272,045	11,017	-	283,062
14,784	283	-	15,067
79,307	17,650	-	96,957
<u>550,780</u>	<u>48,810</u>	<u>9,475</u>	<u>590,115</u>
<u>2,841,348</u>	<u>253,640</u>	<u>19,092</u>	<u>3,075,896</u>
<u>\$9,489,088</u>	<u>\$ 643,379</u>	<u>\$ 19,092</u>	<u>\$10,113,375</u>

**Story City Municipal Electric Utility
EXPENSES**

	<u>Year ended December 31</u>	
	<u>2014</u>	<u>2013</u>
PRODUCTION		
Salaries	\$ 122,176	\$ 119,216
Payroll taxes	20,604	20,189
Employee benefits	54,317	53,974
Purchased power	3,365,845	3,081,711
Gas and oil	16,951	31,886
Maintenance	2,707	8,202
Supplies and expenses	32,876	32,887
Depreciation	<u>317,219</u>	<u>305,161</u>
	<u>3,932,695</u>	<u>3,653,226</u>
DISTRIBUTION		
Salaries	168,221	168,037
Payroll taxes	28,365	28,457
Employee benefits	34,210	42,092
Maintenance	25,583	32,675
Supplies and expenses	56,564	50,994
Depreciation	<u>326,160</u>	<u>323,796</u>
	<u>639,103</u>	<u>646,051</u>
ADMINISTRATION AND GENERAL		
Salaries	184,072	177,540
Payroll taxes	31,046	30,066
Employee benefits	20,099	18,008
Insurance	46,018	49,394
Property taxes	6,215	5,640
Audit	9,900	9,800
Other professional fees	4,080	4,120
Contribution	20,000	20,000
Uncollectible accounts	9,094	10,239
Supplies and expenses	120,118	88,124
Less overhead transfer	<u>(5,314)</u>	<u>(7,644)</u>
	<u>445,328</u>	<u>405,287</u>
Totals	<u>\$5,017,126</u>	<u>\$4,704,564</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**

Board of Trustees
Story City Municipal Electric Utility
Story City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Story City Municipal Electric Utility, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's 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 the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

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 that 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 27, 2015

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2014**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance related to the financial statements were reported.

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2014**

Part II—Findings Related to Required Statutory Reporting

14-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Utility funds were noted.

14-II-B TRAVEL EXPENSES

No expenditures of Utility money for travel expenses of spouses of Utility officials and/or employees were noted.

14-II-C BUSINESS TRANSACTIONS

No business transactions were found between the Utility and Utility officials and/or employees.

14-II-D BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

14-II-E DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy.

14-II-F BOND COVERAGE

Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.