LENOX MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2014 AND 2013

LENOX MUNICIPAL UTILITIES

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LENOX MUNICIPAL UTILITIES
Officials
December 31, 2014

Trustees	Title	Term Expires
Norbert Bradley	Trustee - Chairman	May 1, 2016
Wayne Haidsiak	Trustee	May 1, 2020
Debra Miller	Trustee	May 1, 2020
Kathy Arevalo	Trustee	May 1, 2016
Jake Tripp	Trustee	May 1, 2018
John Borland	General Manager	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Lenox Municipal Utilities (a component unit of the City of Lenox, Iowa) as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 misstatements, 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 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 Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinions

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Utilities' healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note M).

Qualified Opinions

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy referred to in the previous paragraph, the financial statements referred to above present fairly in all material respects, the financial position of Lenox Municipal Utilities as of December 31, 2014 and 2013 and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Utilities has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

To the Board of Trustees
Lenox Municipal Utilities

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2015 on our consideration of Lenox Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 important for assessing the results of our audit.

Grewohl, Bell, Kuhnn & Co. P.C.

Atlantic, Iowa
February 18, 2015

LENOX MUNICIPAL UTILITIES
Statements of Net Position
December 31, 2014

ASSETS

	Electric	Water	Communication	Combined Memorandum Only
Capital Assets - net of depreciation	$ 1,461,320	$ 1,443,714	$ 1,124,031	$ 4,029,065
Special Purpose Funds:				
Restricted funds	--	150,000	112,416	262,416
Board designated funds	987,233	519,294	--	1,506,527
Total special purpose funds	987,233	669,294	112,416	1,768,943
Current Assets:				
Cash	135,889	113,506	--	249,395
Accounts receivable	208,103	87,776	11,786	307,665
Inventory	86,394	--	--	86,394
Prepaid expenses	11,316	3,041	2,061	16,418
Note receivable - Communication	49,000	--	--	49,000
Total current assets	490,702	204,323	13,847	708,872
Other Assets:				
Note receivable - Communication	732,568	--	--	732,568
Total assets	$ 3,671,823	$ 2,317,331	$ 1,250,294	$ 7,239,448

LIABILITIES AND NET POSITION (DEFICIT)

Long-Term Debt, less current maturities	$ --	$ 978,253	$ 1,428,668	$ 2,406,921
Current Liabilities:				
Current maturities of long-term debt	--	67,000	86,700	153,700
Checks issued in excess of cash balance	--	--	42,644	42,644
Accounts payable	88,908	59,587	20,242	168,737
Accrued employee compensation	7,976	5,356	3,321	16,653
Accrued expenses	8,252	4,637	5,936	18,825
Accrued interest	--	2,413	2,599	5,012
Total current liabilities	105,136	138,993	161,442	405,571
Other Liabilities:				
Consumer deposits	23,867	--	--	23,867
Total liabilities	129,003	1,117,246	1,590,110	2,836,359
Net Position (Deficit):				
Invested in capital assets, net of related debt	1,461,320	398,461	(391,337)	1,468,444
Restricted - expendable	--	150,000	112,416	262,416
Unrestricted	2,081,500	651,624	(60,895)	2,672,229
Total net position (deficit)	3,542,820	1,200,085	(339,816)	4,403,089
Total liabilities and net position	$ 3,671,823	$ 2,317,331	$ 1,250,294	$ 7,239,448

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Net Position
December 31, 2013

ASSETS

	Electric	Water	Communication	Combined Memorandum Only
Capital Assets - net of depreciation	$ 1,533,046	$ 1,006,537	$ 1,172,339	$ 3,711,922
Special Purpose Funds:				
Restricted funds	--	173,260	89,431	262,691
Board designated funds	1,498,102	397,259	--	1,895,361
Total special purpose funds	1,498,102	570,519	89,431	2,158,052
Current Assets:				
Cash	57,204	59,477	26,248	142,929
Accounts receivable	158,718	77,038	11,302	247,058
Inventory	106,657	--	--	106,657
Prepaid expenses	12,950	2,970	1,613	17,533
Total current assets	335,529	139,485	39,163	514,177
Other Assets:				
Other	--	--	2,306	2,306
Total assets	$ 3,366,677	$ 1,716,541	$ 1,303,239	$ 6,386,457

LIABILITIES AND NET POSITION (DEFICIT)

Long-Term Debt, less current maturities	$ --	$ 750,000	$ --	$ 750,000
Current Liabilities:				
Current maturities of long-term debt	--	47,000	1,540,000	1,587,000
Accounts payable	81,943	36,449	32,289	150,681
Accrued employee compensation	5,179	2,476	2,690	10,345
Accrued expenses	7,169	4,292	4,347	15,808
Accrued interest	--	2,031	5,134	7,165
Total current liabilities	94,291	92,248	1,584,460	1,770,999
Other Liabilities:				
Consumer deposits	17,950	--	--	17,950
Total liabilities	112,241	842,248	1,584,460	2,538,949
Net Position (Deficit):				
Invested in capital assets, net of related debt	1,533,046	209,537	(367,661)	1,374,922
Restricted - expendable	--	173,260	89,431	262,691
Unrestricted	1,721,390	491,496	(2,991)	2,209,895
Total net position (deficit)	3,254,436	874,293	(281,221)	3,847,508
Total liabilities and net position	$ 3,366,677	$ 1,716,541	$ 1,303,239	$ 6,386,457

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended December 31, 2014

	Electric	Water	Communication	Combined Memorandum Only
Operating Revenues:				
Current use charges	$ 1,742,216	$ 883,442	$ 498,278	$ 3,123,936
Miscellaneous and rentals	68,434	290,671	--	359,105
Total operating revenues	1,810,650	1,174,113	498,278	3,483,041
Operating Expenses:				
Administrative	175,478	123,993	163,864	463,335
Sales and use taxes	670	--	--	670
Payroll and payroll taxes	254,349	148,800	58,739	461,888
Office expense	19,931	15,932	38,736	74,599
Repairs and maintenance	14,214	8,955	1,214	24,383
Plant expense	891,915	416,330	207,265	1,515,510
Distribution expense	75,701	28,903	--	104,604
Bad debts	984	941	511	2,436
Depreciation	97,976	85,523	48,308	231,807
Total operating expenses	1,531,218	829,377	518,637	2,879,232
Operating Income (Loss)	279,432	344,736	(20,359)	603,809
Non-Operating Revenues (Expenses):				
Interest income	8,952	2,629	712	12,293
Interest expense	--	(27,185)	(36,642)	(63,827)
Amortization	--	--	(2,306)	(2,306)
Non-Operating Expenses, net	8,952	(24,556)	(38,236)	(53,840)
Changes in Net Position Before Transfers	288,384	320,180	(58,595)	549,969
Transfers from City	--	5,612	--	5,612
Changes in Net Position	288,384	325,792	(58,595)	555,581
Net Position, Beginning of Year	3,254,436	874,293	(281,221)	3,847,508
Net Position, End of Year	$ 3,542,820	$ 1,200,085	$(339,816)	$ 4,403,089

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended December 31, 2013

	Electric	Water	Communication	Combined Memorandum Only
Operating Revenues:				
Current use charges	$ 1,558,558	$ 811,765	$ 511,205	$ 2,881,528
Miscellaneous and rentals	39,459	59,735	--	99,194
Total operating revenues	1,598,017	871,500	511,205	2,980,722
Operating Expenses:				
Administrative	165,434	70,899	219,528	455,861
Sales and use taxes	1,429	--	--	1,429
Payroll and payroll taxes	245,686	87,127	80,079	412,892
Office expense	15,899	8,516	10,711	35,126
Repairs and maintenance	39,123	6,600	812	46,535
Plant expense	812,114	400,838	199,130	1,412,082
Distribution expense	62,762	51,785	--	114,547
Bad debts	1,556	836	2,518	4,910
Depreciation	99,096	88,096	48,310	235,502
Total operating expenses	1,443,099	714,697	561,088	2,718,884
Operating Income (Loss)	154,918	156,803	(49,883)	261,838
Non-Operating Revenues (Expenses):				
Interest income	237	157	341	735
Interest expense	(820)	(24,470)	(30,800)	(56,090)
Amortization	--	--	(6,916)	(6,916)
Non-Operating Expenses, net	(583)	(24,313)	(37,375)	(62,271)
Changes in Net Position Before Transfers	154,335	132,490	(87,258)	199,567
Transfers from City	--	5,219	--	5,219
Changes in Net Position	154,335	137,709	(87,258)	204,786
Net Position, Beginning of Year	3,100,101	736,584	(193,963)	3,642,722
Net Position, End of Year	$ 3,254,436	$ 874,293	$(281,221)	$ 3,847,508

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended December 31, 2014

	Electric	Water	Communication	Combined Memorandum Only
Cash flows from operating activities:				
Cash received from consumers	$ 1,691,847	$ 871,763	$ 497,283	$ 3,060,893
Cash paid to suppliers	(1,183,814)	(591,600)	(431,755)	(2,207,169)
Cash paid to employees	(215,702)	(125,021)	(48,338)	(389,061)
Other operating revenue	68,434	290,671	--	359,105
Net cash provided by operating activities	360,765	445,813	17,190	823,768
Cash flows from noncapital financing activities:				
Checks issued in excess of cash balance	--	--	42,644	42,644
Transfers from City	--	5,612	--	5,612
Consumer deposits, net	5,917	--	--	5,917
Net cash provided by noncapital financing activities	5,917	5,612	42,644	54,173
Cash flows from capital and related financing activities:				
Capital asset purchases	(26,250)	(522,700)	--	(548,950)
Note proceeds	--	295,253	1,540,000	1,835,253
Principal payments	--	(47,000)	(1,564,632)	(1,611,632)
Interest paid	--	(26,803)	(39,177)	(65,980)
Net cash used in capital and related financing activities	(26,250)	(301,250)	(63,809)	(391,309)
Cash flows from investing activities:				
Note advance to Communications	(790,000)	--	--	(790,000)
Note payments received from Communications	8,432	--	--	8,432
Income from investments	8,952	2,629	712	12,293
Net cash provided by (used in) investing Activities	(772,616)	2,629	712	(769,275)
Net increase (decrease) in cash	(432,184)	152,804	(3,263)	(282,643)
Cash at beginning of year	1,555,306	629,996	115,679	2,300,981
Cash at end of year	$ 1,123,122	$ 782,800	$ 112,416	$ 2,018,338
Reconciliation of cash to the balance sheets:				
Cash in current assets	$ 135,889	$ 113,506	$ --	$ 249,395
Cash in special purpose funds	987,233	669,294	112,416	1,768,943
Total cash	$ 1,123,122	$ 782,800	$ 112,416	$ 2,018,338

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LENOX MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended December 31, 2014

	Electric	Water	Communication	Combined Memorandum Only
Reconciliation of income (loss) from operations to net cash provided by operating activities:				
Income (loss) from operations	$ 279,432	$ 344,736	$(20,359)	$ 603,809
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities				
Depreciation	97,976	85,523	48,308	231,807
Bad debts	984	941	511	2,436
Change in assets and liabilities				
Accounts receivable	(50,369)	(11,679)	(995)	(63,043)
Inventory	20,263	--	--	20,263
Prepaid expenses	1,634	(71)	(448)	1,115
Accounts payable, trade	6,965	23,138	(12,047)	18,056
Accrued expenses	1,083	345	1,589	3,017
Accrued employee compensation	2,797	2,880	631	6,308
Total adjustments	81,333	101,077	37,549	219,959
Net cash provided by operating activities	$ 360,765	$ 445,813	$ 17,190	$ 823,768

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended December 31, 2013

	Electric	Water	Communication	Combined Memorandum Only
Cash flows from operating activities:				
Cash received from consumers	$ 1,512,740	$ 798,936	$ 509,589	$ 2,821,265
Cash paid to suppliers	(1,129,202)	(562,263)	(411,143)	(2,102,608)
Cash paid to employees	(216,600)	(72,609)	(67,648)	(356,857)
Other operating revenue	39,459	59,735	--	99,194
Net cash provided by operating activities	206,397	223,799	30,798	460,994
Cash flows from noncapital financing activities:				
Transfers from City	--	5,219	--	5,219
Consumer deposits, net	865	--	--	865
Net cash provided by noncapital financing activities	865	5,219	--	6,084
Cash flows from capital and related financing activities:				
Capital asset purchases	(93,541)	(3,616)	--	(97,157)
Principal payments	(60,000)	(45,000)	--	(105,000)
Interest paid	(1,230)	(24,584)	(30,800)	(56,614)
Net cash used in capital and related financing activities	(154,771)	(73,200)	(30,800)	(258,771)
Cash flows from investing activities:				
Income from investments	237	157	341	735
Net increase in cash	52,728	155,975	339	209,042
Cash at beginning of year	1,502,578	474,021	115,340	2,091,939
Cash at end of year	$ 1,555,306	$ 629,996	$ 115,679	$ 2,300,981
Reconciliation of cash to the balance sheets:				
Cash in current assets	$ 57,204	$ 59,477	$ 26,248	$ 142,929
Cash in special purpose funds	1,498,102	570,519	89,431	2,158,052
Total cash	$ 1,555,306	$ 629,996	$ 115,679	$ 2,300,981

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LENOX MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended December 31, 2013

	Electric	Water	Communication	Combined Memorandum Only
Reconciliation of income (loss) from operations to net cash provided by operating activities:				
Income (loss) from operations	$ 154,918	$ 156,803	$(49,883)	$ 261,838
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities				
Depreciation	99,096	88,096	48,310	235,502
Bad debts	1,556	836	2,518	4,910
Change in assets and liabilities				
Accounts receivable	(45,818)	(12,829)	(1,616)	(60,263)
Inventory	(2,906)	--	--	(2,906)
Prepaid expenses	(329)	(397)	99	(627)
Accounts payable, trade	4,320	(13,034)	27,294	18,580
Accrued expenses	4,771	3,806	3,827	12,404
Accrued employee compensation	(9,211)	518	249	(8,444)
Total adjustments	51,479	66,996	80,681	199,156
Net cash provided by operating activities	$ 206,397	$ 223,799	$ 30,798	$ 460,994

The accompanying notes are an integral part of these statements.

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Lenox Municipal Utilities provides electricity, water, and communication services to the City of Lenox and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, water and communication services. Lenox Municipal Utilities provides billing and collection services for the City of Lenox, however, those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities operate as enterprise funds which utilize the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

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

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Capital Assets and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

5. Accounts Receivable and Revenue Recognition

Billings for electric, water, and communication revenues are rendered monthly. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

At December 31, 2014 and 2013, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies.

7. Investments

Investments are carried at fair value except for short-term highly liquid investments with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other non-operating revenue when earned.

8. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The restricted funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 160 hours. Any excess over 160 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

10. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Lenox city limits. The property taxes are recorded as of the date they are paid.

11. Cash Equivalents

For purposes of the statement of cash flows, the Lenox Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

12. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs. The Utilities had no major construction projects covering more than one year, therefore, no interest was capitalized during 2014 or 2013.

13. Net Position

Net position of the Utilities is classified in three components. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase, construction, or improvement of those assets. *Restricted net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes I and J. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt* or *restricted.*

14. 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 Utilities' proportionate share of the Iowa Public Employees Retirement System pension plan.

NOTE B - TRANSACTIONS WITH CITY OF LENOX, IOWA

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Lenox. This service is provided for a minimal charge to the City.

The Utilities provide electric, water, and communication services to the City of Lenox without charge.

Following is a summary of activity between the Utilities and City during the year:

Water	2014	2013
Sewer Fees Collected for City	$ 176,260	$ 178,314
Charge to City for Sewer Billing Service	$ 5,612	$ 5,219

There is also an operating agreement with the City of Lenox that states the City shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine and reimburse the Utilities for operating expenses of the wind turbine in excess of revenues generated. If revenues of the wind turbine are greater than its operating expenses, the Utilities is to pay the City this excess revenue. No settlement has been made between the City and the Utilities for 2013 and 2014. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, WATER, AND COMMUNICATIONS DEPARTMENTS

Certain administrative costs are split between the Electric, Water, and Communications Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric, Water, and Communications Departments at December 31:

	2014	2013
Interest income (Electric) and expense (Communications) during the year	$ 4,968	$ --
Note advanced (Electric) and received (Communications) during the year	$ 790,000	$ --
Note received (Electric) and paid (Communications) during the year	$ 8,432	$ --

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, WATER, AND COMMUNICATIONS DEPARTMENTS - Continued

	2014	2013
Interest bearing note due to Electric from Communications Department	$ 781,568	$ --
Less current portion	49,000	--
	$ 732,568	$ --

See Note J for details of the interest bearing note due to Electric from Communications.

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net position are available for the following purposes:

	2014	2013
Electric Fund		
Board designated for:		
Facility repairs and capital expenditures	$ 987,233	$ 1,498,102
Water Fund		
Restricted by debt resolution for payment of principal and interest:		
Sinking fund	$ 75,000	$ 100,260
Reserve fund	75,000	73,000
Total restricted funds	$ 150,000	$ 173,260
Board designated for:		
Facility repairs and capital expenditures	$ 519,294	$ 397,259
Communication Fund		
Restricted by debt resolution for payment of principal and interest:		
Reserve fund	$ 112,416	$ 89,431

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are 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 and the Treasurer of the State of Iowa; 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.

The composition of restricted and designated assets is as follows:

	2014	2013
Electric Fund		
Board designated funds:		
Cash and cash equivalents	$ 987,233	$ 1,498,102
Water Fund		
Restricted funds:		
Cash and cash equivalents	$ 150,000	$ 173,260
Board designated funds:		
Cash and cash equivalents	$ 519,294	$ 397,259
Communication Fund		
Restricted funds:		
Cash and cash equivalents	$ 112,416	$ 89,431

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to 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 Utilities.

NOTE F - FAIR VALUE MEASUREMENTS

The electric fund's note receivable the communication fund are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Utilities uses appropriate valuation techniques based on the available inputs to measure the fair value of its note receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its investments at December 31, 2014 and 2013.

Level 3 Fair Value Measurements

The electric fund's note receivable is not actively traded and significant other observable inputs are not available. The fair value of the note receivable is based on contract value. Level 3 fair value for the note receivable was $781,568 at December 31, 2014 ($ - 0 - at December 31, 2013). Management believes these values approximate current fair value.

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 asset using unobservable inputs for the years ended December 31, 2014 and 2013:

December 31, 2014	
Beginning balance	$ --
Note receivable advance	790,000
Collections on note receivable	(8,432)
Ending balance	$ 781,568

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2014 and 2013 were as follows:

	Balance 2013	Additions	Disposals	Balance 2014
Electric Fund				
Plant and Equipment	$ 3,891,234	$ 26,250	$ --	$ 3,917,484
Depreciation	(2,358,188)	(97,976)	--	(2,456,164)
Depreciable Capital Assets, net	$ 1,533,046	$(71,726)	$ --	$ 1,461,320

	Balance 2012	Additions	Disposals	Balance 2013
Electric Fund				
Plant and Equipment	$ 3,797,693	$ 93,541	$ --	$ 3,891,234
Depreciation	(2,259,092)	(99,096)	--	(2,358,188)
Depreciable Capital Assets, net	$ 1,538,601	$(5,555)	$ --	$ 1,533,046

	Balance 2013	Additions	Disposals	Balance 2014
Water Fund				
Plant and Equipment	$ 2,637,930	$ 522,700	$ --	$ 3,160,630
Depreciation	(1,663,393)	(85,523)	--	(1,748,916)
Depreciable Capital Assets, net	$ 974,537	$ 437,177	$ --	$ 1,411,714
Land	$ 32,000	$ --	$ --	$ 32,000
Non-Depreciable Capital Assets	$ 32,000	$ --	$ --	$ 32,000
Total Capital Assets, net	$ 1,006,537	$ 437,177	$ --	$ 1,443,714

NOTE G - CAPITAL ASSETS - Continued

	Balance 2012	Additions	Disposals	Balance 2013
Water Fund				
Plant and Equipment	$ 2,634,314	$ 3,616	$ --	$ 2,637,930
Depreciation	(1,575,297)	(88,096)	--	(1,663,393)
Depreciable Capital Assets, net	$ 1,059,017	$(84,480)	$ --	$ 974,537
Land	$ 32,000	$ --	$ --	$ 32,000
Non-Depreciable Capital Assets	$ 32,000	$ --	$ --	$ 32,000
Total Capital Assets, net	$ 1,091,017	$(84,480)	$ --	$ 1,006,537

	Balance 2013	Additions	Disposals	Balance 2014
Communication Fund				
Plant and Equipment	$ 1,435,677	$ --	$ --	$ 1,435,677
Depreciation	(263,338)	(48,308)	--	(311,646)
Depreciable Capital Assets, net	$ 1,172,339	$(48,308)	$ --	$ 1,124,031

	Balance 2012	Additions	Disposals	Balance 2013
Communication Fund				
Plant and Equipment	$ 1,435,677	$ --	$ --	$ 1,435,677
Depreciation	(215,028)	(48,310)	--	(263,338)
Depreciable Capital Assets, net	$ 1,220,649	$(48,310)	$ --	$ 1,172,339

NOTE H - ELECTRIC FUND NON-CURRENT LIABILITIES

A schedule of changes in Electric Fund non-current liabilities for the years ended December 31, 2014 and 2013 follows:

Electric Fund	Balance 2013	Additions	Reductions	Balance 2014
Consumer Deposits, net	$ 17,950	$ 5,917	$ --	$ 23,867
Total Non-Current Liabilities	$ 17,950	$ 5,917	$ --	$ 23,867

Electric Fund	Balance 2012	Additions	Reductions	Balance 2013
2003 Revenue Notes	$ 60,000	$ --	$ 60,000	$ --
Less Current Portion	(60,000)	--	(60,000)	--
Long-Term Debt, net	--	--	--	--
Consumer Deposits, net	17,085	865	--	17,950
Total Non-Current Liabilities	$ 17,085	$ 865	$ --	$ 17,950

NOTE I - WATER FUND NON-CURRENT LIABILITIES

A schedule of changes in Water Fund non-current liabilities for the years ended December 31, 2014 and 2013 follows:

Water Fund	Balance 2013	Additions	Reductions	Balance 2014
2006 Revenue Bonds	$ 797,000	$ --	$ 47,000	$ 750,000
2014 Revenue Bonds	--	295,253	--	295,253
Less Current Portion	(47,000)	(67,000)	(47,000)	(67,000)
Long-Term Debt, net	$ 750,000	$ 228,253	$ --	$ 978,253

Water Fund	Balance 2012	Additions	Reductions	Balance 2013
2006 Revenue Bonds	$ 842,000	$ --	$ 45,000	$ 797,000
Less Current Portion	(45,000)	(47,000)	(45,000)	(47,000)
Long-Term Debt, net	$ 797,000	$(47,000)	$ --	$ 750,000

NOTE I - WATER FUND NON-CURRENT LIABILITIES - Continued

Water Revenue Bonds, Series 2006
On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of $1,150,000 with interest at the rate of 3 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2008 and are due annually thereafter until paid in full.

Water Revenue Bonds, Series 2014
On July, 11, 2014, Lenox Municipal Utilities issued water revenue bonds in the amount of $452,000 with interest at the rate of 1.75 percent for the constructing of improvements and extensions to the water distribution system. The Utilities has drawn $295,253 of the proceeds by December 31, 2014. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds will commence on June 1, 2015 and are due annually thereafter until paid in full.

The annual debt service on the bonds is expected to require less than 18% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately $73,800 and $433,800, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2006 water revenue bonds specify the creation and maintenance of a sinking fund and a debt service reserve fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date.

Principal and interest payments required on Water Fund long-term debt during each of the five years ending December 31, 2015 through 2019 and thereafter are as follows:

	Principal	Interest	Total
2015	$ 67,000	$ 29,383	$ 96,383
2016	68,000	27,737	95,737
2017	70,000	25,904	95,904
2018	72,000	24,017	96,017
2019	74,000	22,077	96,077
2020 - 2024	402,000	79,252	481,252
2025 - 2028	292,253	23,138	315,391
	$ 1,045,253	$ 231,508	$ 1,276,761

NOTE J - COMMUNICATION FUND NON-CURRENT LIABILITIES

A schedule of changes in Communication Fund non-current liabilities for the years ended December 31, 2014 and 2013 follows:

Communication Fund	Balance 2013	Additions	Reductions	Balance 2014
2011 Revenue Notes	$ 1,540,000	$ --	$ 1,540,000	$ --
2014 Revenue Notes	--	750,000	16,200	733,800
Note Payable Electric Department	--	790,000	8,432	781,568
Less Current Portion	(1,540,000)	(86,700)	(1,540,000)	(86,700)
Long-Term Debt, Net	$ --	$ 1,453,300	$ 24,632	$ 1,428,668

Communication Fund	Balance 2012	Additions	Reductions	Balance 2013
2011 Revenue Notes	$ 1,540,000	$ --	$ --	$ 1,540,000
Less Current Portion	--	(1,540,000)	--	(1,540,000)
Long-Term Debt, Net	$ 1,540,000	$(1,540,000)	$ --	$ --

Lenox Municipal Utilities issued Communications Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011, dated May 1, 2011, in the amount of $1,540,000 for the purpose of refinancing the 2008 Iowa Finance Authority Note and the note payable to Electric Fund. Interest was payable on May 1 and November 1 of each year until paid. The note had interest at the rate of 2.0%. Debt service payments were payable solely from the net revenues of the communication system. The notes matured May 1, 2014.

Lenox Municipal Utilities issued communications Revenue Refunding Note, Series 2014 dated May 1, 2014 in the amount of $750,000 for the purpose of partially refinancing the 2011 Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011. Interest and principal is payable monthly. The note bears interest at the rate of 4.25% and is payable to a local bank. Debt service payments are payable solely from the net revenues of the Communication System. The notes mature May 1, 2029.

The note payable to the Electric Fund was issued on May 1, 2014 in the amount of $790,000 for the purpose of partially refinancing the 2011 Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011. Interest on the note is payable semi-annually on May 1 and November 1 of each year the notes are outstanding at an interest rate of 1%. The communication fund began making monthly payments to the electric fund during 2014; however, principal payments on the notes are not scheduled to commence until May 1, 2015 and are due annually thereafter until paid in full. The notes mature May 1, 2029.

NOTE J - COMMUNICATION FUND NON-CURRENT LIABILITIES - Continued

The annual debt service on the notes is expected to require greater than 100 percent of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately $63,800 and $29,200, respectively. The difference is being funded through existing reserves of the Utilities.

Principal and interest payments required on Communication Fund long-term debt during each of the five years ending December 31, 2015 through 2019 and thereafter are as follows:

	Principal	Interest	Total
2015	$ 86,700	$ 38,113	$ 124,813
2016	89,200	35,986	125,186
2017	91,200	33,781	124,981
2018	92,800	31,499	124,299
2019	95,800	29,136	124,936
2020-2024	519,200	107,055	626,255
2025-2029	540,468	33,931	574,399
	$ 1,515,368	$ 309,501	$ 1,824,869

NOTE K - PENSION AND RETIREMENT BENEFITS

Iowa Public Employees Retirement System

The Utilities contribute 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.

Plan members are required to contribute 5.95% of their annual salary and the Utilities are required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2014, 2013, and 2012, were approximately $33,900, $32,100, and $35,000, respectively, equal to the required contributions for each year.

NOTE L - DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457 through the ICMA Retirement Corporation's Deferred Compensation Plan. The Plan allows Utilities employees to defer a portion of their current salary until future years. The Utilities' accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Utilities' fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Utilities. The Utilities is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at December 31, 2014 was approximately $83,700 ($94,100 at December 31, 2013). This amount is not included in the financial statements since the Utilities does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The Utilities operate a single-employer health benefit plan which provides medical, prescription drug, dental, and vision benefits for employees, retirees, and their spouses. There are 8 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical, prescription drug, dental, and vision benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy: The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utilities and plan members are $485 for single coverage and $1,070 for family coverage. For the year ended June 30, 2014, the Utilities contributed $79,048 and plan members eligible for benefits contributed $6,463 to the plan.

Net OPEB Obligation: Management of the Utilities considers any OPEB obligation, which may exist, to be immaterial. Therefore the Utilities has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

NOTE N - COMMITMENTS AND CONTINGENCIES

Risk Management
The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Off Balance Sheet and Concentration of Credit Risk
Accounts receivable are due for electric, water, and communication charges to customers of Lenox, Iowa and the surrounding area. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

Environmental Regulations
The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Construction
The Water Department of the Utilities has entered into contracts totaling approximately $232,000 for constructing improvements and extensions of the water distribution system. The purchase will be made with grant proceeds and proceeds of the Series 2014 Water Revenue Bonds.

Subsequent Events
The Utilities has evaluated all subsequent events through February 18, 2015, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

LENOX MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net position differently for financial statement and budget purposes.

	Per Financial Statements			Budget	Combined
	Electric	Water	Communication	Adjustments	Utilities
Revenues	$ 1,819,602	$ 1,182,354	$ 498,990	$ --	$ 3,500,946
Expenses	1,531,218	856,562	557,585	71,632	3,016,997
Net	288,384	325,792	(58,595)	(71,632)	483,949
Balance beginning of year	3,254,436	874,293	(281,221)	137,681	3,985,189
Balance end of year	$ 3,542,820	$ 1,200,085	$(339,816)	$ 66,049	$ 4,469,138

	Budget Basis	Budget	Variance Favorable (Unfavorable)
Revenues	$ 3,500,946	$ 3,766,103	$(265,157)
Expenses	3,016,997	3,767,009	750,012
Net	483,949	(906)	484,855
Balance beginning of year	3,985,189	3,985,189	--
Balance end of year	$ 4,469,138	$ 3,984,283	$ 484,855

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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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

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

We have audited the financial statements of Lenox Municipal Utilities as of and for the year ended December 31, 2014, and have issued our report thereon dated February 18, 2015. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lenox Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lenox Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that 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 the Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Lenox Municipal Utilities

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 deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 Utilities' 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 Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

Lenox Municipal Utilities' response to the findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' response, we did not audit the Utilities' response 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 Utilities' internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grimewood, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
February 18, 2015

LENOX MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2014

PART I - INTERNAL CONTROL DEFICIENCIES

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: Disbursements during the year ended December 31, 2014 did not exceed amounts budgeted.

14-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

14-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

14-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

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

PART II - REQUIRED STATUTORY REPORTING (Continued)

14-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

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

14-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

14-II-I Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

* * *