

**RESALE POWER GROUP OF IOWA
DES MOINES, IOWA**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
FEBRUARY 29, 2016 AND FEBRUARY 28, 2015**

RESALE POWER GROUP OF IOWA

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RESALE POWER GROUP OF IOWA

OFFICIALS

Administrative Board -

Pat Stief	President	Traer Municipal Utilities
Warren McKenna	Vice-President	Farmers Electric Cooperative
Randy Neff	Secretary/Treasurer	Mount Pleasant Municipal Utilities
Russell Eimers	Director	Amana Society Service Company
Mike Johnson	Director	La Porte City Municipal Utilities
Joel McCubbin	Director	City of Long Grove
Jeff Ishmael	Director	Story City Municipal Electric Utility

Others -

Kris Stubbs	Chief Administrative Officer	Resale Power Group of Iowa
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INDEPENDENT AUDITORS' REPORT

Resale Power Group of Iowa
Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Resale Power Group of Iowa (RPGI) as of and for the years ended February 29, 2016 and February 28, 2015, and the related notes to the financial statements, which collectively comprise RPGI'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Resale Power Group of Iowa as of February 29, 2016, and February 28, 2015, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016, on our consideration of Resale Power Group of Iowa's (RPGI) 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* in considering RPGI's internal control over financial reporting and compliance.

May 24, 2016
Omaha, Nebraska

RESALE POWER GROUP OF IOWA
STATEMENTS OF NET POSITION
FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

ASSETS	2016	2015
Cash -		
Operations	\$ 5,261,604	\$ 5,028,443
MISO collateral reserve	634	634
Total cash	<u>5,262,238</u>	<u>5,029,077</u>
Accounts receivable	2,235,469	2,388,695
Collateral deposit - MISO	1,891,850	1,891,850
Property and equipment, net	18,544	26,839
Total assets	<u>9,408,101</u>	<u>9,336,461</u>
DEFERRED OUTFLOWS OF RESOURCES		
Prepaid expenses	-	290
Total assets and deferred outflows of resources	<u>\$ 9,408,101</u>	<u>\$ 9,336,751</u>
LIABILITIES AND NET POSITION		
Accounts payable - trade	\$ 2,010,113	\$ 2,209,513
Accrued distributions to members	471,081	-
Payroll liabilities	<u>15,956</u>	<u>12,332</u>
Total liabilities	2,497,150	2,221,845
Net position -		
Net investment in capital assets	18,544	26,839
Unrestricted	<u>6,892,407</u>	<u>7,088,067</u>
Total net position	6,910,951	7,114,906
Total liabilities and net position	<u>\$ 9,408,101</u>	<u>\$ 9,336,751</u>

See notes to financial statements.

RESALE POWER GROUP OF IOWA

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015**

	2016	2015
OPERATING REVENUES:		
Wholesale energy revenue	\$ 31,952,318	\$ 31,461,342
Testing revenue	-	69,231
Total operating revenue	31,952,318	31,530,573
OPERATING EXPENSES:		
Wholesale energy costs	30,990,837	30,430,476
Testing direct expense	-	70,444
Consultant expense	241,556	223,233
Legal expense	251,453	56,154
Other operating expenses	206,658	334,481
Total operating expenses	31,690,504	31,114,788
Operating income	261,814	415,785
NON-OPERATING REVENUE:		
Miscellaneous income	100	300
Interest income	5,212	3,089
Total non-operating revenue	5,312	3,389
Change in net position	267,126	419,174
Net position, beginning of year	7,114,906	6,695,732
Distributions to members	(471,081)	-
Net position, end of year	\$ 6,910,951	\$ 7,114,906

See notes to financial statements.

RESALE POWER GROUP OF IOWA

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from wholesale energy sales	\$ 32,105,510	\$ 31,685,692
Cash received from testing services	-	47,081
Cash payments for wholesale energy purchased	(31,189,947)	(30,947,279)
Cash payments for testing services	-	(70,444)
Cash paid to employees for wages and benefits	(94,187)	(96,922)
Cash payments for operating expenses	<u>(593,527)</u>	<u>(506,887)</u>
Net cash from operating activities	227,849	111,241
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for property and equipment	-	(13,112)
Cash received for other	100	300
Cash received for investment earnings	<u>5,212</u>	<u>3,089</u>
Net cash from investing activities	5,312	(9,723)
Increase (decrease) in cash and invested funds	233,161	101,518
Cash, beginning of year	5,029,077	4,927,559
Cash, end of year	<u>\$ 5,262,238</u>	<u>\$ 5,029,077</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 261,814	\$ 415,785
Non-cash depreciation expense	8,295	9,930
Changes in operating assets and liabilities -		
(Increase) decrease in receivables	153,226	202,200
(Increase) decrease in prepaid expense	290	(290)
Increase (decrease) in accounts payable	(199,400)	(516,513)
Increase (decrease) in payroll liabilities	3,624	129
Net cash from operating activities	<u>\$ 227,849</u>	<u>\$ 111,241</u>

See notes to financial statements.

RESALE POWER GROUP OF IOWA
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Organization -**

Resale Power Group of Iowa (RPGI) was organized in 1986 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of RPGI is to obtain wholesale electric energy and transmission thereof to its members and other related services, and otherwise act on behalf of, its members (referred to in the financial statements as power supply fund). During 2013, RPGI started a new division which tests the emissions of reciprocating engines that burn natural gas and diesel fuel, both within the membership and for other municipal utilities in Iowa (referred to in the financial statements as emissions testing fund). The emission testing division discontinued at March 1, 2015. Management is comprised of an administrative board selected from RPGI members.

RPGI members are either public or private agencies who are bound by the terms of the 28E agreement filed with the Iowa Secretary of State. RPGI's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) for business-type activities reported as enterprise funds.

B. **Reporting Entity -**

RPGI is a special-purpose governmental entity that meets all of the criteria to be reported as a primary government. The criteria includes having a separate elected governing body, being legally separate, and being fiscally independent of other state and local governments.

C. **Basis of Presentation -**

As a 28E organization, the accounts of RPGI are organized as a governmental entity with its activities reported as enterprise funds. Enterprise funds are used to account for operations: (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services on a continuing basis be financed or recovered primarily through user charges or, (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. **Measurement Focus and Basis of Accounting -**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. **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.

F. **Budget -**

RPGI is not required to adopt and does not publish or approve a public budget. RPGI does however, prepare an internal-use-only budget as required by Chapter 28E of the Code of Iowa.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. **Revenue Recognition -**

RPGI distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

H. **Cash -**

Cash and cash equivalents for the purpose of reporting cash flows, consists of cash in operating bank accounts, and cash invested in Iowa Public Agency Investment Trust (IPAIT).

I. **Property and Equipment -**

Property and equipment (capital assets) are recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets. Major acquisitions and improvements are capitalized. Expenditures for maintenance, repairs and acquisitions of minor items are charged to earnings as incurred. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reported in operations for the period.

J. **Net Position -**

Net position shown on the Statements of Net Position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources and is divided into three components:

Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to acquire those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position - consists of assets that are restricted by the enabling legislation, by grantors, and by other contributors of which RPGI has none.

Unrestricted - consists of all remaining net position reported in this category.

K. **Income Taxes -**

RPGI is exempt from federal income taxes pursuant to Revenue Ruling 77-261, 1977-2 C B 45.

NOTE 2 - CASH AND INVESTMENTS

RPGI 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 RPGI; 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. RPGI held no investments at year end.

All monies are deposited with Iowa Public Agency Investment Trust (IPAIT). The balances shown by IPAIT, totaling \$4,797,811 and \$5,029,077 for 2016 and 2015, respectively, are not FDIC insured as IPAIT is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law which authorizes Iowa public agencies to jointly invest monies pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

NOTE 3 - COLLATERAL DEPOSIT

RPGL, as authorized agent for and on behalf of its participant members, entered into an unsecured pro rata guaranty with the Midcontinent Independent System Operator (MISO) to provide transmission, ancillary and related services. The maximum financial obligation of this instrument was initially set at \$1,000,000. In the event that RPGL's maximum financial obligation exceeds \$1,000,000, RPGL is required to place additional financial assurances with MISO in an amount equal to or greater than this additional credit exposure. Additional financial assurances may take the form of cash deposits or irrevocable standby letter of credit. As of February 29, 2016, RPGL's cash deposit with MISO was \$1,891,850 and was unchanged from the prior year.

NOTE 4 - CAPITAL ASSETS, NET

Details of changes in the power supply and emissions testing fund's combined capital asset costs by category and depreciation reported for the year are as follows:

	Beginning of Year	Increases	Decreases	End of Year
Office furniture and equipment cost	\$ 49,650	\$ -	\$ -	\$ 49,650
Less accumulated depreciation	22,811	8,295	-	31,106
Property and equipment, net	<u>\$ 26,839</u>	<u>\$ 8,295</u>	<u>\$ -</u>	<u>\$ 18,544</u>

NOTE 5 - SERVICE AGREEMENT

RPGL has a service agreement with Nextera Energy Power Marketing LLC, whereby Nextera Energy provides delivery of wholesale electric energy on a levelized basis to RPGL. The revised agreement runs through December 31, 2020. RPGL has agreed to purchase certain minimum megawatt-hours of energy from Nextera Energy. In turn, RPGL has electric services agreements with its participating members to utilize the energy provided by Nextera Energy pursuant to the service agreement.

NOTE 6 - OTHER CONTINGENCIES

On March 10, 2014, a settlement agreement was reached in the legal proceeding against RPGL and specific member entities relating to the integrated transmission system between a predecessor-in-interest, Interstate Power and Light Company (IPL), and Central Iowa Power Cooperative (CIPCO). The settlement agreement became effective immediately and stipulated an annual payment from the named defendants. RPGL, acting on behalf of those entities named in the proceeding, began paying \$166,000 a year effective April 2014. The last payment is scheduled to be made in April 2018. RPGL, in turn, invoices those specific members an amount equal to their load ratio share of the total amount paid. RPGL, acting as agent on behalf of those named members when complying with the terms and conditions of the settlement statement, has not recognized a liability or reserve in these financial statements.

Future annual amounts payable and recoverable are as follows:

Fiscal Year Ending February 28,	
2017	\$ 166,000
2018	166,000
2019	<u>166,000</u>
Total	<u>\$ 498,000</u>

NOTE 7 - OPERATING RESERVES CAP POLICY

During 2015, RPGI adopted a policy limiting its operating reserves. The operating reserves were capped at \$5 million. At the end of each fiscal year, the RPGI Board of Directors determines if a distribution under this policy is to be declared. Distributions are made in accordance with this policy. A distribution of \$471,081 was accrued to qualifying members for the year ending February 29, 2016.

NOTE 8 - COMBINING OF FUNDS

Management has discontinued the operations of the emissions testing fund and transferred the net fund deficit of \$29,089 to the power supply fund effective March 1, 2015. The net deficit transferred was comprised of the following:

Cash	\$ 46,631
Accounts receivable	31,750
Property and equipment, net	25,151
Internal balances	(132,587)
Payroll liabilities	(34)
Total	<u>\$ (29,089)</u>

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 24, 2016, the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of, or disclosure in, the financial statements.

**OTHER REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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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

INDEPENDENT AUDITORS' REPORT

Resale Power Group of Iowa
Des Moines, 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, business-type activities of Resale Power Group of Iowa (RPGI) as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise RPGI's basis financial statements, and have issued our report thereon dated May 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RPGI'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 RPGI's internal control. Accordingly, we do not express an opinion on the effectiveness of RPGI'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 RPGI'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 RPGI's operations for the years ended February 29, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of RPGI. 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.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

May 24, 2016
Omaha, Nebraska

RESALE POWER GROUP OF IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED FEBRUARY 29, 2016

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS

- (a) The auditors' report expresses unmodified opinions on the financial statements for the year ended February 29, 2016.
- (b) No material weaknesses in internal control were identified in the audit.
- (c) The audit did not disclose any noncompliance which could have a material effect on the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Instances of Non-Compliance:

No matters were identified.

Reportable Conditions:

No matters were identified.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- (1) Questionable Expenses - No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of Resale Power Group of Iowa officials or employees were noted.
- (3) Business Transactions - No business transactions between Resale Power Group of Iowa and its officials, as described in the Code of Iowa, were noted.
- (4) Board Minutes - No transactions were found that we believe should have been approved in the administrative board minutes but were not.
- (5) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.