

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
Maquoketa, Iowa

FINANCIAL STATEMENTS
December 31, 2015

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MAQUOKETA MUNICIPAL ELECTRIC UTILITY
UTILITY BOARD OF TRUSTEES
December 31, 2015

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

INDEPENDENT AUDITOR'S REPORT

Utility Board of Trustees
Maquoketa Municipal Electric Utility
Maquoketa, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility, a component unit of the City of Maquoketa, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

December 31, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Maquoketa Municipal Electric Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the ten years ended December 30, 2014 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2016 on our consideration of Maquoketa Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Maquoketa Municipal Electric Utility's internal control over financial reporting and compliance.

Miner, Gilroy and Meade, CPA PC

Maquoketa, Iowa
May 16, 2016

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

I. INTRODUCTION

This management discussion and analysis (MD&A) of Maquoketa Municipal Electric Utility's (MMEU) financial performance provides an overview of MMEU's financial activities for the fiscal year ending December 31, 2015. The information in this MD&A should be considered in conjunction with the financial statements that follow this section.

II. OVERVIEW OF BUSINESS

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

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

III. GENERAL OVERVIEW OF UTILITY OPERATIONS

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

MMEU has expanded over the years and currently provides electric service to virtually all parts of Maquoketa and some rural areas to the south of Maquoketa. MMEU presently serves approximately 2,822 residential customers, 664 commercial customers, and 18 industrial customers.

MMEU owns distribution lines and transmission lines. MMEU owns and operates two power plants. Plant 1, or the original plant built in 1919, is on the north side of the City, and presently has the capacity to generate 21,650 KW of power. Plant 2 was built in the City's South Industrial Park along U.S. Highway 61 on the City's south side. Plant 2 has the capacity to generate 5,000 KW of power. The generating units are able to operate on an amalgamation of either diesel fuel or natural gas or on diesel fuel only. Plants 1 and 2 generated 138,100 kWh of power in 2015 or about 0.19% of the total power needs of the City.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

When diesel fuel prices substantially increased in the 1970's, it became more cost effective for the City to purchase electric power at a wholesale rate from private companies that operated coal-fired and nuclear power plants. The City also joined a consortium of other municipally owned electric utilities known as the Resale Power Group of Iowa (R.P.G.I.) in the 1970's. The R.P.G.I. negotiates the contracts for wholesale electric power from private electric companies on behalf of its member utilities. MMEU signed a five-year agreement for the purchase of wholesale electric power with the R.P.G.I. in late 2003, which became effective on January 1, 2004. This contract ended December 31, 2008. MMEU has a contract with WPPI for wholesale electric power. In 2015, MMEU purchased 75,456,005 kWh or 99.81% of its power needs from WPPI.

IV. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

V. MMEU/CITY AGREEMENTS

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

VI. MMEU BUDGET AND RATES

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

The current electric structure went into effect on November 30, 2011. Monthly MMEU rates are as follows:

<u>Rate Class</u>	<u>Rate</u>
RS Residential	
Fixed Charge	\$8.00
Energy Charge	0.1093
PPA	Varies
SGS Small General Service (Commercial) Non-Demand	
Fixed Charge	\$ 16.00
Energy Charge	0.1053
PPA	Varies
LGS 50 Demand > 50 kW	
Fixed Charge	\$ 50.00
Demand Charge	8.5000
Energy Charge	0.0824
	Varies
LGS 2000 Demand > 2000 kW	
Fixed Charge	\$ 200.00
Demand Charge	7.2500
Distribution Demand Charge	1.2500
Energy Charge	0.0722
PPA	Varies
SL – Security Lighting	
50 W HPS	\$ 7.00
100 W HPS	8.75
250 W HPS	14.25
400 W HPS	18.25
1000 W HPS	30.50

Sales by type of customer account are as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,822	22,632,239
Commercial SGS	664	23,041,090
Power LGS	18	23,990,380
Security Lights	334	610,201

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

VII. FINANCIAL HIGHLIGHTS

MMEU's total revenues increased from \$9,233,032 in 2014 to \$9,463,865 in 2015, an increase of \$230,833 or 2.50%. The increase in MMEU revenues were due to Family Dollar TIF Funds refunded in 2015 were \$517,991 compared to \$229,428 in 2014 (an increase of \$288,563).

MMEU's total disbursements increased from \$8,431,505 in 2014 to \$8,693,457 in 2015, an increase of \$261,952 or 3.11%. The increase in MMEU disbursements is due mainly to the Allen Street Substation Project, which was new in 2015; added two apprentice linemen to Distribution (added salary, safety equipment, clothing and training); added one new Power Plant employee (salary and other related expenses).

VIII. PROGRAM REVENUES

MMEU generated revenues from the following sources in 2015 and 2014:

	<u>2015</u>	<u>2014</u>
1. Charges for Services:		
Residential	\$ 2,953,482	\$ 2,980,797
Commercial	2,724,439	2,767,100
Power sales	2,645,792	2,469,537
Capacity payments	99,362	138,462
Security lights	74,962	73,193
Sales tax	<u>267,056</u>	<u>265,468</u>
Total charges for services	8,765,093	8,694,557
2. Use of Money/Property	48,887	47,158
3. Miscellaneous	119,783	118,631
4. Other Financing Sources	<u>530,102</u>	<u>372,686</u>
Total Revenues	<u>\$ 9,463,865</u>	<u>\$ 9,233,032</u>

IX. PROGRAM EXPENSES

A comparison of MMEU 2015 and 2014 disbursements is as follows:

	<u>2015</u>	<u>2014</u>
General Operating	\$ 8,675,471	\$ 8,431,505
Nonmajor	<u>30,486</u>	<u>31,773</u>
Total Expenses	<u>\$ 8,705,957</u>	<u>\$ 8,431,505</u>

The \$261,952 increase is due to the Allen Street Substation Project, which was new in 2015, and added personnel at Distribution and Power Plant.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

X. MMEU CASH BALANCES OR ASSETS

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

<u>Fund</u>	<u>Balance 12/31/2015</u>	<u>Balance 12/31/2014</u>
1. General Operating	\$ 5,448,660	\$ 4,698,609
2. Electric Surplus	182,113	180,085
3. Customer Deposits	<u>79,852</u>	<u>74,023</u>
Total	<u>\$ 5,710,625</u>	<u>\$ 4,952,717</u>

The General Operating Fund is divided into five accounts.

<u>Account</u>	<u>Balance 12/31/2015</u>	<u>Balance 12/31/2014</u>
1. Operating Account	\$ 5,020,472	\$ 4,240,295
2. Insurance Account	69,210	68,913
3. Vehicle Reserve - Distribution	238,255	323,678
4. Economic Development	40,000	40,000
5. Heavy Equipment	30,723	25,723
6. Generator Upgrades	<u>50,000</u>	<u>-</u>
Total	<u>\$ 5,448,660</u>	<u>\$ 4,698,609</u>

XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES

	<u>2015</u>	<u>2014</u>
Starting Cash Balance – All Funds	\$ 4,952,717	\$ 4,151,190
Total Revenues	9,463,865	9,233,032
Total Expenses	<u>8,705,957</u>	<u>8,431,505</u>
Ending Cash Balance – All Funds	<u>\$ 5,710,625</u>	<u>\$ 4,952,717</u>

XII. SIGNIFICANT MMEU SYSTEM & EQUIPMENT IMPROVEMENTS

MMEU completed the following system improvement project in 2015:

- Continued work on distribution lines update (4160 KV upgrade to 12470 KV)
- Began work on the Allen Street Substation Project

XIII. ANALYSIS OF OVERALL FINANCIAL POSITION

MMEU's overall financial position increased by \$757,908 during 2015.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

XIV. ANALYSIS OF BALANCES AND TRANSACTIONS

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

XV. ANALYSIS OF VARIATIONS BETWEEN BUDGET AND ACTUAL AMOUNTS

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

	<u>Budget</u>	<u>Actual</u>
Disbursements	\$9,070,727	\$8,705,957

The difference resulted from variations in the following items:

1. Administration
 - a. AMI software maintenance fees were under budget due to the line item was over-budgeted; costs were less than expected.
 - b. Office equipment/supplies were under budget due to the billing format did not change as planned (did not purchase additional paper, envelopes and folder/stuffer to go to full page billing).
2. Power Plant
 - a. Purchased power was under budget due to fewer kWh purchased and sold due to a mild year weather-wise.
 - b. Salaries were under budget due to the mechanic/operator replacement was hired later in the year than planned.
3. Distribution
 - a. Materials and hardware were under budget due to this line item fluctuates from year to year depending on the variety of materials needed and purchased.
 - b. 4kV system upgrade was under budget due to conversion work coming to an end and varies depending on where they are working.
4. Vehicle Reserve Distribution
 - a. Equipment replacement was under budget due to truck bid came in under budget.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

XVI. CURRENT KNOWN FACTS – EFFECT ON FINANCIAL POSITION

MMEU will spend approximately \$690,000 during 2016 upgrading six of the generators at the North Plant to make them RICE/NESHAP compliant. If the engines are completed by June 1, 2016 they are eligible for the MISO Capacity Market and revenues over the next five years are anticipated to be approximately \$2,400,000. The Allen Street Substation Upgrade Project is expected to be completed during 2016 at an estimated cost of \$2,100,000. Both projects will be paid out of cash reserves. MMEU has a long term power purchase agreement with WPPI Energy. The agreement started January 1, 2009 and remains in effect until December 2037. It was extended out through December 31, 2055 on March 16, 2016.

MMEU is considering creating a Telecommunications Utility and has budgeted \$60,000 for a Feasibility Study during 2016. A preliminary study costing \$5,000 is projected for 2016 to explore the cost of converting the downtown overhead electric distribution system to underground.

MMEU will continue to make improvements to the distribution system.

XVII. FINAL COMMENTS

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

BASIC FINANCIAL STATEMENTS

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2015

	Enterprise
Operating receipts:	
Charges for services	\$ 8,765,093
Use of money and property	48,887
Miscellaneous	119,783
Total operating receipts	8,933,763
Operating disbursements:	
General:	
Power purchased	6,229,190
Employee expense	1,028,613
Contract labor	15,192
Repairs and maintenance	165,359
Supplies and services	118,051
Capital outlay	190,089
Sales and use tax	268,556
Gas and oil	28,080
Insurance	278,195
Franchise fee	164,972
Economic development	5,000
Energy conservation	23,192
WPPI community relations	3,208
WPPI conservation grants	7,766
Contribution in aid rebates	2,846
WPPI shared savings	12,111
Charitable giving	25,300
Environmental	6,219
Allen street substation project	13,308
Customer deposits	30,486
Utilities	29,578
Miscellaneous	60,646
Total operating disbursements	8,705,957
Excess of receipts over disbursements	227,806
Other financing sources (uses):	
Other financing sources	530,102
Operating transfers in	155,000
Operating transfers out	(155,000)
Total other financing sources (uses)	530,102
Net change in cash balances	757,908
Cash balances beginning of year	4,952,717
Cash balances end of year	\$ 5,710,625
Cash basis net position	
Unrestricted	\$ 5,710,625

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

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

As of and for the Year Ended December 31, 2015

	Enterprise Funds		
	General Operating	Nonmajor	Total
Operating receipts:			
Charges for services	\$ 8,765,093	\$ -	\$ 8,765,093
Use of money and property	46,859	2,028	48,887
Miscellaneous	83,468	36,315	119,783
Total operating receipts	<u>8,895,420</u>	<u>38,343</u>	<u>8,933,763</u>
Operating disbursements:			
Power purchased	6,229,190	-	6,229,190
Employee expense	1,028,613	-	1,028,613
Contract labor	15,192	-	15,192
Repairs and maintenance	165,359	-	165,359
Supplies and services	118,051	-	118,051
Capital outlay	190,089	-	190,089
Sales and use tax	268,556	-	268,556
Gas and oil	28,080	-	28,080
Insurance	278,195	-	278,195
Franchise fee	164,972	-	164,972
Economic development	5,000	-	5,000
Energy conservation	23,192	-	23,192
WPPI community relations	3,208	-	3,208
WPPI conservation grants	7,766	-	7,766
Contribution in aid rebates	2,846	-	2,846
WPPI shared savings	12,111	-	12,111
Charitable giving	25,300	-	25,300
Environmental	6,219	-	6,219
Allen street substation project	13,308	-	13,308
Customer deposits	-	30,486	30,486
Utilities	29,578	-	29,578
Miscellaneous	60,646	-	60,646
Total operating disbursements	<u>8,675,471</u>	<u>30,486</u>	<u>8,705,957</u>
Excess of receipts over disbursements	<u>219,949</u>	<u>7,857</u>	<u>227,806</u>
Other financing sources (uses):			
Other financing sources	530,102	-	530,102
Operating transfers in	155,000	-	155,000
Operating transfers out	(155,000)	-	(155,000)
Total other financing sources (uses)	<u>530,102</u>	<u>-</u>	<u>530,102</u>
Net change in cash balances	750,051	7,857	757,908
Cash balance beginning of year	<u>4,698,609</u>	<u>254,108</u>	<u>4,952,717</u>
Cash balance end of year	<u>\$ 5,448,660</u>	<u>\$ 261,965</u>	<u>\$ 5,710,625</u>
Cash basis net position			
Unrestricted	<u>\$ 5,448,660</u>	<u>\$ 261,965</u>	<u>\$ 5,710,625</u>

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

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements include only the funds of the Maquoketa Municipal Electric Utility (the Utility). The Utility has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. Based on the above criteria, the Utility has determined that there are no potential component units which must be included in the Utility's financial statements as of and for the year ended December 31, 2015.

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

B. Basis of Presentation

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

Net position is reported in two categories:

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

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

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

The Utility reports the following major enterprise funds:

General Operating Fund

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

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Sinking Fund

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

C. Measurement Focus and Basis of Accounting

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

Budgets and Budgetary Accounting

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

NOTE 2 - DEPOSITS AND POOLED INVESTMENTS

The Utility's deposits in banks at December 31, 2015, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 3 - COMPENSATED ABSENCES

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

<u>Type of Benefit</u>	<u>Amount at December 31, 2015</u>
Vacation	\$ 61,991
Sick leave	226,552
Compensatory time	1,050
Total	<u>\$ 289,593</u>

NOTE 4 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended December 31, 2015 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Vehicle reserve distribution	General operating	\$ 100,000
Heavy equipment account	General operating	5,000
Generator upgrade account	General operating	<u>50,000</u>
Total		<u>\$ 155,000</u>

NOTE 5 - PENSION AND RETIREMENT BENEFITS

Iowa Public Employee Retirement System (IPERS)

Plan Description - IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - PENSION AND RETIREMENT BENEFITS (CONTINUED)

Iowa Public Employee Retirement System (IPERS) (continued)

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - PENSION AND RETIREMENT BENEFITS (CONTINUED)

Iowa Public Employee Retirement System (IPERS) (continued)

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the year ended December 31, 2015 were \$76,531.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Utility's liability for its proportionate share of the collective net pension liability totaled \$469,319. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the collective net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's proportion was 0.0118338 percent, which was a decrease of 0.0009984 percent from its proportion measured as of June 30, 2013.

For the year ended December 30, 2015 the Utility collective pension expense, collective deferred outflows and collective deferred inflows totaled \$35,127, \$25,813 and \$178,985 respectively.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - PENSION AND RETIREMENT BENEFITS (CONTINUED)

Iowa Public Employee Retirement System (IPERS) (continued)

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rate of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - PENSION AND RETIREMENT BENEFITS (CONTINUED)

Iowa Public Employee Retirement System (IPERS) (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Utility's proportionate share of the net pension liability:	\$ 886,766	\$ 469,319	\$116,951

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE 6 - RISK MANAGEMENT

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

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7 - RELATED PARTY TRANSACTIONS

As stated in Note 1, Maquoketa Municipal Electric Utility is a component unit of the City of Maquoketa, Iowa. The City pays the Utility for electric service to City-owned facilities and also pays the Utility for labor performed by Utility employees on city property. For the year ended December 31, 2015, the utility received the following amounts from the City:

Electric service	\$ 303,166
Labor	6,484
Total	<u>\$ 309,650</u>

NOTE 8 - SHARED SAVINGS AGREEMENT

The Utility entered into a shared savings funding agreement with WPPI Energy, a Wisconsin municipal electric company (WPPI). WPPI provides money to members to contribute to retail customer's eligible energy efficiency and construction projects. For fiscal year ending December 31, 2015, the Utility did not receive any funding from WPPI, nor did they lend any amount out for the current year. The Utility acts as a pass through agent. The terms of the loan payable to WPPI are identical with the loans receivable from the entities listed below. The agreements require a total monthly payments of \$1,009, with the last agreement expiring on July 31, 2019; interest is currently at 2%. In the event of default, WPPI and the Utility will share equally any shortfalls.

Note Receivable:	
Maquoketa Area Hospitality Group LLC	\$ 24,270
Maquoketa Family Clinics, P.C.	6,320
Ohnward Fine Arts Center	1,580
Total Note Receivable	<u>\$ 32,170</u>

Note Payable:	
WPPI	<u>\$ 31,363</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Note Receivable	<u>\$ 44,281</u>	<u>\$ -</u>	<u>\$ 12,111</u>	<u>\$ 32,170</u>
Note Payable	<u>\$ 43,474</u>	<u>\$ -</u>	<u>\$ 12,111</u>	<u>\$ 31,363</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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

NOTE 10 - SUBSEQUENT EVENTS

The Utility has evaluated events and transactions occurring after December 31, 2015 for potential items requiring to be recognized or disclosed in the financial statements. Subsequent events have been evaluated through May 16, 2016, the date of which the financial statements were available to be issued.

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

REQUIRED SUPPLEMENTAL INFORMATION

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES - BUDGET TO ACTUAL (CASH BASIS)
PROPRIETARY FUNDS
Year Ended December 31, 2015

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Variance Final to Actual Favorable (Unfavorable)</u>
		<u>Original Budget</u>	<u>Final Budget</u>	
Receipts:				
Use of money and property	\$ 48,887	\$ 20,375	\$ 20,375	\$ 28,512
Charges for services	8,765,093	8,145,000	8,145,000	620,093
Miscellaneous	119,783	1,043,726	1,043,726	(923,943)
Total receipts	<u>8,933,763</u>	<u>9,209,101</u>	<u>9,209,101</u>	<u>(275,338)</u>
Disbursements	<u>8,705,957</u>	<u>9,070,727</u>	<u>9,070,727</u>	<u>364,770</u>
Excess of receipts over disbursements	<u>227,806</u>	<u>138,374</u>	<u>138,374</u>	<u>89,432</u>
Other financing sources (uses):				
Other financing sources	530,102	-	-	530,102
Operating transfers in	155,000	175,000	175,000	(20,000)
Operating transfers out	(155,000)	(175,000)	(175,000)	20,000
Total other financing sources (uses)	<u>530,102</u>	<u>-</u>	<u>-</u>	<u>530,102</u>
Net change in cash balances	757,908	138,374	138,374	619,534
Cash balance beginning of year	<u>4,952,717</u>	<u>4,952,717</u>	<u>4,952,717</u>	<u>-</u>
Cash balance end of year	<u>\$ 5,710,625</u>	<u>\$ 5,091,091</u>	<u>\$ 5,091,091</u>	<u>\$ 619,534</u>
Cash basis net position				
Unrestricted	<u>\$ 5,710,625</u>	<u>\$ 5,091,091</u>	<u>\$ 5,091,091</u>	<u>\$ 619,534</u>

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

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION -
BUDGETARY REPORTING
December 31, 2015

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

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

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

During the year ended December 31, 2015, disbursements did not exceed the amounts budgeted in the business type activities functions.

**MAQUOKETA MUNICIPAL ELECTIC UTILITY
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR**

REQUIRED SUPPLEMENTARY INFORMATION

	2015
Utility's proportion of the net pension liability (asset)	0.0118338%
Utility's proportionate share of the net pension liability	\$ 469,319
Utility's covered-employee payroll	\$ 857,012
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	54.76%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF UTILITY CONTRIBUTIONS**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contributions	\$ 76,531	\$ 67,945	\$ 72,576	\$ 70,887
Contributions in relation to the statutorily required contributions	<u>(76,531)</u>	<u>(67,945)</u>	<u>(72,576)</u>	<u>(70,887)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 857,012	\$ 760,859	\$ 825,096	\$ 847,429
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.36%

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 72,432	\$ 70,396	\$ 66,293	\$ 59,013	\$ 54,874	\$ 51,314
<u>(72,432)</u>	<u>(70,396)</u>	<u>(66,293)</u>	<u>(59,013)</u>	<u>(54,874)</u>	<u>(51,314)</u>
<u>\$ -</u>					
\$ 967,079	\$ 1,033,500	\$ 1,018,737	\$ 951,538	\$ 930,558	\$ 892,420
7.49%	6.81%	6.51%	6.20%	5.90%	5.75%

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
IOWA PUBLIC EMPLOYEE RETIREMENT SYSTEM
Year ended December 31, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
IOWA PUBLIC EMPLOYEE RETIREMENT SYSTEM
Year ended December 31, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

OTHER SUPPLEMENTAL INFORMATION

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
NONMAJOR ENTERPRISE FUNDS
As of and for the Year Ended December 31, 2015

	Electric Surplus	Customer Deposits	Total
Operating receipts:			
Use of money and property	\$ 2,028	\$ -	\$ 2,028
Miscellaneous	-	36,315	36,315
Total operating receipts	2,028	36,315	38,343
Operating disbursements:			
Customer deposits	-	30,486	30,486
Bond principal payment	-	-	-
WPPI deposit	-	-	-
Total disbursements	-	30,486	30,486
Excess of receipts over disbursements	2,028	5,829	7,857
Other financing sources (uses):			
Other financing sources	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in cash balances	2,028	5,829	7,857
Cash balance beginning of year	180,085	74,023	254,108
Cash balance end of year	\$ 182,113	\$ 79,852	\$ 261,965
Cash basis net position			
Unrestricted	\$ 182,113	\$ 79,852	\$ 261,965

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
GENERAL OPERATING FUND
As of and for the Year Ended December 31, 2015

	<u>Operating Account</u>	<u>Insurance Account</u>
Operating receipts:		
Charges for services:		
Residential	\$ 2,953,482	\$ -
Commercial	2,724,439	-
Security lights	74,962	-
Capacity payments	99,362	-
Power sales	2,645,792	-
Sales Tax	267,056	-
	<u>8,765,093</u>	<u>-</u>
Use of money and property:		
Interest on investments	20,442	377
Miscellaneous	26,040	-
	<u>46,482</u>	<u>377</u>
Miscellaneous:		
Refunds	6,691	2,487
Miscellaneous	74,290	-
	<u>80,981</u>	<u>2,487</u>
Total operating receipts	<u>8,892,556</u>	<u>2,864</u>
Operating disbursements:		
Administration	1,160,228	-
Power plant	6,522,560	-
Distribution	804,693	2,567
Total operating disbursements	<u>8,487,481</u>	<u>2,567</u>
Excess of receipts over disbursements	<u>405,075</u>	<u>297</u>
Other financing sources (uses):		
Other financing sources - grants, loans, shared savings	530,102	-
Transfers in (out):		
Operating account	-	-
Vehicle reserve - distribution	(100,000)	-
Heavy equipment account	(5,000)	-
Generator upgrades account	(50,000)	-
Total other financing sources (uses)	<u>375,102</u>	<u>-</u>
Net change in cash balances	780,177	297
Cash balance, beginning of year	<u>4,240,295</u>	<u>68,913</u>
Cash balance end of year	<u>\$ 5,020,472</u>	<u>\$ 69,210</u>

<u>Vehicle Reserve - Distribution</u>	<u>Economic Development</u>	<u>Heavy Equipment Account</u>	<u>Generator Upgrades Account</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,953,482
-	-	-	-	2,724,439
-	-	-	-	74,962
-	-	-	-	99,362
-	-	-	-	2,645,792
-	-	-	-	267,056
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,765,093</u>
-	-	-	-	20,819
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,040</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,859</u>
-	-	-	-	9,178
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,290</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,468</u>
-	-	-	-	8,895,420
-	-	-	-	1,160,228
-	-	-	-	6,522,560
185,423	-	-	-	992,683
<u>185,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,675,471</u>
<u>(185,423)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,949</u>
-	-	-	-	530,102
100,000	-	5,000	50,000	155,000
-	-	-	-	(100,000)
-	-	-	-	(5,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
<u>100,000</u>	<u>-</u>	<u>5,000</u>	<u>50,000</u>	<u>530,102</u>
(85,423)	-	5,000	50,000	750,051
<u>323,678</u>	<u>40,000</u>	<u>25,723</u>	<u>-</u>	<u>4,698,609</u>
<u>\$ 238,255</u>	<u>\$ 40,000</u>	<u>\$ 30,723</u>	<u>\$ 50,000</u>	<u>\$ 5,448,660</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2015

Administration:	
Salaries	\$ 221,032
FICA and IPERS	36,518
Insurance	226,178
Sales and use tax	268,556
Franchise fee	164,972
Materials and repairs	20,944
Postage	15,761
Meeting expense	5,228
Dues	28,328
Office supplies	20,870
Professional fees	50,360
Utilities	6,395
Advertising	2,151
City Hall shared services	1,366
Energy conservation	23,192
WPPI community relations	3,208
WPPI conservation grants	7,766
Economic development	5,000
Contribution in aid rebates	2,846
WPPI shared savings	12,111
Charitable giving	25,300
Miscellaneous	12,146
Total administration	1,160,228
Power Plant:	
Salaries	168,293
FICA and IPERS	25,988
Purchased power	6,229,190
Insurance	49,450
Materials and repairs	19,951
Supplies	4,565
Utilities	7,226
Natural gas	11,578
Lubricants	6,165
Meeting and training	154
Total power plant	6,522,560

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2015

Distribution:		
Salaries	\$	495,098
FICA and IPERS		81,684
Contract labor		15,192
Materials and repairs		75,076
Meeting expense		10,063
Supplies		25,129
Utilities		15,957
Gas and oil		10,337
Tools		5,859
Conductor		6,179
Transformers		33,996
4kV System Upgrade		4,666
Environmental		6,219
Meters		3,354
Safety attire		2,576
Allen street substation project		13,308
Total distribution		<u>804,693</u>
 Total disbursements	\$	<u><u>8,487,481</u></u>

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

Utility Board of Trustees
Maquoketa Municipal Electric Utility
Maquoketa, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, each major fund, and the aggregate remaining fund information of Maquoketa Municipal Electric Utility, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated May 16, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Responses as item II-A-15 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an effect on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Maquoketa Municipal Electric Utility's Responses to Findings

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

Purpose of this Report

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

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

Miner, Gilroy and Meade, CPA PC

Maquoketa, Iowa
May 16, 2016

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2015

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

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

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2015**

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Financial Statement Preparation

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

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

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

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

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

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

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2015**

Part III: Other Findings Related to Statutory Reporting:

- III-A-15 Certified Budget - Disbursements during the year ended December 31, 2015 did not exceed amounts budgeted.
- III-B-15 Questionable Disbursements - We noted no disbursements that we believe would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-15 Travel Expense - No disbursements of Utility money for travel expenses of spouses of utility officials or spouses of utility employees were noted.
- III-D-15 Business Transactions - We noted no business transactions between the Utility and Utility officials or employees that appear to represent a conflict of interest.
- III-E-15 Bond Coverage - Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- III-F-15 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- III-H-15 Revenue Notes - During the year ended December 31, 2015, the Utility did not have any outstanding revenue notes.
- III-I-15 Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.