

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

FINANCIAL REPORT

December 31, 2016

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Story City Municipal Electric Utility
OFFICIALS
December 31, 2016

BOARD OF TRUSTEES

Term expires

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

June 1, 2022
June 1, 2020
June 1, 2018

ADMINISTRATOR

Jeff Ishmael



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Story City Municipal Electric Utility, a component unit of the City of Story City, Iowa, as of and for the years ended December 31, 2016 and 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 accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Story City Municipal Electric Utility as of December 31, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the Utility's proportionate share of the net position liability, and the schedule of Utility pension contributions on pages 6-9 and 23-26 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017 on our consideration of Story City Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 10, 2017

Story City Municipal Electric Utility MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Story City Municipal Electric Utility, we offer readers of the financial statements this narrative overview and analysis of the Utility's financial performance during the fiscal years ended December 31, 2016 and 2015. Please read it in conjunction with the Utility's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$252,713 to \$10,403,293
- Total assets whose use is limited increased by \$290,258 to \$2,661,321
- Total capital assets increased by \$102,417 to \$6,438,876
- Total net position increased by \$348,959 to \$9,732,429
- Total revenues increased by \$393,656, or 8%, to \$5,508,425
- Expenses increased by \$145,151, or 3% to \$5,116,909

Financial Analysis of the Utility

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

Balance Sheets

A summary of the Utility's statements of net position is presented in Table 1.

Table 1
Condensed Statements of Net Position

	December 31		
	2016	2015	2014 (Not restated)
Current assets	\$ 1,303,096	\$ 1,443,058	\$ 1,469,605
Assets whose use is limited	2,661,321	2,371,063	1,882,505
Capital assets	<u>6,438,876</u>	<u>6,336,459</u>	<u>6,649,257</u>
Total assets	<u>10,403,293</u>	<u>10,150,580</u>	<u>10,001,367</u>
Deferred outflows of resources	<u>59,458</u>	<u>61,076</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>\$10,462,751</u>	<u>\$10,211,656</u>	<u>\$10,001,367</u>
Current liabilities	\$ 338,702	\$ 418,670	\$ 352,319
Noncurrent liabilities	<u>351,132</u>	<u>293,796</u>	<u>—</u>
Total liabilities	<u>689,834</u>	<u>712,466</u>	<u>352,319</u>
Deferred inflows of resources	<u>40,488</u>	<u>115,740</u>	<u>—</u>
Net investment in capital assets	6,438,876	6,336,459	6,649,257
Unrestricted	<u>3,293,553</u>	<u>3,047,011</u>	<u>2,999,791</u>
Total net position	<u>9,732,429</u>	<u>9,383,470</u>	<u>9,649,048</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$10,462,751</u>	<u>\$10,211,656</u>	<u>\$10,001,367</u>

Revenues, Expenses, and Changes in Net Position

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

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

	Year ended December 31		
	2016	2015	2014 (Not restated)
Electricity revenue	\$5,484,832	\$5,091,373	\$5,158,590
Other revenue	<u>23,593</u>	<u>23,396</u>	<u>21,089</u>
Total revenues	<u>5,508,425</u>	<u>5,114,769</u>	<u>5,179,679</u>
Salaries	483,076	498,568	474,469
Other expenses	3,957,139	3,822,407	3,899,278
Depreciation expense	<u>676,694</u>	<u>650,783</u>	<u>643,379</u>
Total expenses	<u>5,116,909</u>	<u>4,971,758</u>	<u>5,017,126</u>
Operating income	<u>391,516</u>	<u>143,011</u>	<u>162,553</u>
Interest income	11,949	10,108	8,349
Service donated to municipality	<u>(54,506)</u>	<u>(46,472)</u>	<u>(55,311)</u>
Total nonoperating gains (losses)	<u>(42,557)</u>	<u>(36,364)</u>	<u>(46,962)</u>
Change in net position	348,959	106,647	115,591
Total net position, beginning	<u>9,383,470</u>	<u>9,276,823</u>	<u>9,533,457</u>
Total net position, ending	<u>\$9,732,429</u>	<u>\$9,383,470</u>	<u>\$9,649,048</u>

Operating and Financial Performance

The following summarizes the Utility's statements of revenues, expenses and changes in net position between December 31, 2016 and 2015.

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

Volume: During the year ended December 31, 2016, the number of Utility customers remained very comparable with 2015. Electricity revenues increased by \$393,459, or 8% in 2016.

Price Increase: During 2015, the Utility initiated an electricity rate study. Price increases were implemented, effective with the July, 2015 billing cycle, to reflect the Utility's increased cost of electricity. The Utility had not implemented any price increases since 2005.

Other Revenue

Other revenue increased to \$23,593 in 2016 compared to \$23,396 in 2015.

Expenses

Approximately 10% of Utility's expenses are for salaries. Total salaries decreased by \$15,492, or 3%, in 2016.

Approximately 80% of Utility's expenses are for other expenses. Total other expenses increased by \$134,732, or 4%, in 2016. The most significant increase related to purchased power and distribution supplies and expenses.

Approximately 10% of Utility's expenses relate to depreciation expense. Depreciation expense increased to \$676,694 in 2016 from \$650,783 in 2015.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased in 2016 to \$(42,557) compared to \$(36,364) in 2015.

Capital Assets

At the end of 2016, the Utility had \$6,438,876 invested in capital assets, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in capital assets. During fiscal year 2016, \$779,111 was spent to acquire capital assets.

A summary of the Utility's capital assets is presented in Table 3.

Table 3
Capital Assets

	December 31		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Production	\$ 8,337,382	\$ 8,224,017	\$ 8,146,024
Transmission	1,813,013	1,813,013	1,813,013
Distribution	<u>7,723,270</u>	<u>7,063,231</u>	<u>6,803,595</u>
Subtotal	17,873,665	17,100,261	16,762,632
Less accumulated depreciation	<u>11,434,789</u>	<u>10,763,802</u>	<u>10,113,375</u>
Capital assets	<u>\$ 6,438,876</u>	<u>\$ 6,336,459</u>	<u>\$ 6,649,257</u>

Deferred Outflows and Inflows of Resources

As of December 31, 2016, the Utility reported \$59,458 of deferred outflows of resources and \$40,488 of deferred inflows of resources. The Notes to the Financial Statements provide more detail regarding the nature and components of the deferred outflows and inflows of resources.

Contacting Story City Municipal Electric Utility's Management

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

**Story City Municipal Electric Utility
STATEMENTS OF NET POSITION**

	December 31	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash	\$ 289,016	\$ 421,849
Customer receivables, less allowance for uncollectible accounts 2016 and 2015 \$15,000	527,772	488,406
Loan receivable	200,000	200,000
Inventories	273,508	320,203
Prepaid insurance	12,800	12,600
Total current assets	<u>1,303,096</u>	<u>1,443,058</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	<u>2,661,321</u>	<u>2,371,063</u>
CAPITAL ASSETS		
Less accumulated depreciation	17,873,665	17,100,261
Total capital assets	<u>11,434,789</u>	<u>10,763,802</u>
	<u>6,438,876</u>	<u>6,336,459</u>
Total assets	<u>10,403,293</u>	<u>10,150,580</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>59,458</u>	<u>61,076</u>
Total assets and deferred outflows of resources	<u>\$10,462,751</u>	<u>\$10,211,656</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 297,129	\$ 374,068
Accrued expenses	41,573	44,602
Total current liabilities	<u>338,702</u>	<u>418,670</u>
LONG-TERM LIABILITIES		
Net pension liability	<u>351,132</u>	<u>293,796</u>
Total liabilities	<u>689,834</u>	<u>712,466</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	<u>40,488</u>	<u>115,720</u>
NET POSITION		
Net investment in capital assets	6,438,876	6,336,459
Unrestricted	<u>3,293,553</u>	<u>3,047,011</u>
Total net position	<u>9,732,429</u>	<u>9,383,470</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$10,462,751</u>	<u>\$10,211,656</u>

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

	Year ended December 31	
	2016	2015
REVENUES		
Electricity revenue		
Residential	\$2,014,600	\$1,872,752
Commercial	701,275	701,389
Large power	<u>2,768,957</u>	<u>2,517,232</u>
	5,484,832	5,091,373
Other	<u>23,593</u>	<u>23,396</u>
Total revenues	<u>5,508,425</u>	<u>5,114,769</u>
EXPENSES		
Production	3,920,466	3,867,919
Distribution	735,307	629,421
Administration and general	<u>461,136</u>	<u>474,418</u>
Total expenses	<u>5,116,909</u>	<u>4,971,758</u>
Operating income	<u>391,516</u>	<u>143,011</u>
NONOPERATING GAINS (LOSSES)		
Interest income	11,949	10,108
Service donated to municipality	<u>(54,506)</u>	<u>(46,472)</u>
Total nonoperating gains (losses)	<u>(42,557)</u>	<u>(36,364)</u>
Change in net position	348,959	106,647
TOTAL NET POSITION		
Beginning	<u>9,383,470</u>	<u>9,276,823</u>
Ending	<u>\$9,732,429</u>	<u>\$9,383,470</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$5,390,960	\$5,068,247
Cash paid to suppliers for goods and services	(4,006,890)	(3,795,216)
Cash paid to employees for services	(483,076)	(498,568)
Other operating revenue received	<u>23,593</u>	<u>23,396</u>
Net cash provided by operating activities	<u>924,587</u>	<u>797,859</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(779,111)</u>	<u>(337,985)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>11,949</u>	<u>10,108</u>
NET INCREASE IN CASH	157,425	469,982
CASH		
Beginning	<u>2,792,912</u>	<u>2,322,930</u>
Ending	<u>\$2,950,337</u>	<u>\$2,792,912</u>

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

	Year ended December 31	
	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 391,516	\$ 143,011
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	676,694	650,783
Service donated to municipality	(54,506)	(46,472)
Changes in assets, deferred outflows, liabilities and deferred inflows		
(Increase) decrease in customer receivables	(39,366)	23,346
(Increase) decrease in inventories	46,695	(15,175)
(Increase) in prepaid insurance	(200)	(200)
(Increase) decrease in pension related deferred outflows	1,618	(17,788)
Increase (decrease) in accounts payable	(76,939)	65,348
Increase (decrease) in accrued expenses	(3,029)	1,003
Increase (decrease) in net pension liability	57,336	(121,717)
Increase (decrease) in pension related deferred inflows	<u>(75,232)</u>	<u>115,720</u>
Net cash provided by operating activities	<u>\$ 924,587</u>	<u>\$ 797,859</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET POSITION		
Per statement of net position		
Current assets, cash	\$ 289,016	\$ 421,849
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	<u>2,661,321</u>	<u>2,371,063</u>
Total per statement of cash flows	<u>\$2,950,337</u>	<u>\$2,792,912</u>

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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

Reporting Entity

For financial reporting purposes, Story City Municipal Electric Utility has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. These criteria also include organizations that are fiscally dependent on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Inventories

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

Capital Assets

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System, IPERS, and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Sales Tax

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

Net Position

Net position is presented in the following three components:

Net investment in capital assets

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

Restricted

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

Unrestricted

Unrestricted net position has no externally imposed restrictions on use.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses and Changes in Net Position

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

Interest Income

Interest income is reported as nonoperating gains.

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Utility's deposits at December 31, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

As to interest rate risk, the Utility's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utility.

NOTE 3 LOAN RECEIVABLE

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

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

NOTE 3 LOAN RECEIVABLE (continued)

The development agreement also stipulated the City of Story City, Iowa, enter into a separate agreement with the developer requiring the developer to reimburse the City, in an amount equal to the original loan, when the constructed real estate is subsequently sold to a new business locating in Story City, Iowa. Subsequent to this transaction, the development agreement requires the City to reimburse the Utility the same amount. As of December 31, 2016, the Utility anticipates the receipt of payment on this loan receivable during the 2017 year. Accordingly, the loan receivable is reported on the balance sheets as a current asset at December 31, 2016.

NOTE 4 CAPITAL ASSETS

A summary of capital assets and related accumulated depreciation is as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Production	\$ 8,337,382	\$ 6,245,578	\$ 8,224,017	\$ 5,925,801
Transmission	1,813,013	1,568,082	1,813,013	1,495,562
Distribution	<u>7,723,270</u>	<u>3,621,129</u>	<u>7,063,231</u>	<u>3,342,439</u>
Totals	<u>\$17,873,665</u>	<u>\$11,434,789</u>	<u>\$17,100,261</u>	<u>\$10,763,802</u>

A summary of changes in capital assets for the year ended December 31, 2016 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 8,224,017	\$ 113,365	\$ -	\$ 8,337,382
Transmission	1,813,013	-	-	1,813,013
Distribution	<u>7,063,231</u>	<u>665,746</u>	<u>5,707</u>	<u>7,723,270</u>
Totals	17,100,261	779,111	5,707	17,873,665
Less accumulated depreciation	<u>(10,763,802)</u>	<u>(676,694)</u>	<u>(5,707)</u>	<u>11,434,789</u>
Net capital assets	<u>\$ 6,336,459</u>	<u>\$ 102,417</u>	<u>\$ -</u>	<u>\$ 6,438,876</u>

A summary of changes in capital assets for the year ended December 31, 2015 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 8,146,024	\$ 77,993	\$ -	\$ 8,224,017
Transmission	1,813,013	-	-	1,813,013
Distribution	<u>6,803,595</u>	<u>259,992</u>	<u>356</u>	<u>7,063,231</u>
Totals	16,762,632	337,985	356	17,100,261
Less accumulated depreciation	<u>(10,113,375)</u>	<u>(650,783)</u>	<u>(356)</u>	<u>(10,763,802)</u>
Net capital assets	<u>\$ 6,649,257</u>	<u>\$ (312,798)</u>	<u>\$ -</u>	<u>\$ 6,336,459</u>

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

NOTE 5 PENSION PLAN

Plan Description

IPERS is a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System. Membership is mandatory for employees of the Utility, except for those covered by another retirement system. 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.

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, any time 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. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

- 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% 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 0.5% 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.

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.

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

NOTE 5 PENSION PLAN (continued)

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 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the Utility contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.76% of pay and the Utility contributed 10.14% for a total rate of 16.90%. As applicable to the Utility, contributions were only to Regular members during fiscal year 2016.

The Utility's contributions to IPERS for the years ended December 31, 2016 and 2015 were \$44,485 and \$44,917, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At December 31, 2016, the Utility reported a liability of \$351,132 for its proportionate share of the net pension liability. The Utility net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the 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. The following table summarizes the change in the Utility's proportionate share:

	June 30		Change
	2015	2014	
Utility's proportionate share	0.007107%	0.007408%	0.000301%

For the year ended December 31, 2016, the Utility recognized pension expense of \$28,207. At December 31, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,305	\$ -
Change in assumptions	9,668	-
Net difference between projected and actual earnings on pension plan investments	-	29,224
Change in proportion and difference between Utility contributions and proportionate share of contributions	-	11,264
Utility contributions subsequent to the measurement date	44,485	-
Totals	\$ 59,458	\$ 40,488

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

NOTE 5 PENSION PLAN (continued)

The \$44,485 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Regular Members</u>	<u>Protection Occupation</u>	<u>Total</u>
2017	\$ (12,600)	\$ —	\$ (12,600)
2018	(12,600)	—	(12,600)
2019	(12,600)	—	(12,600)
2020	12,624	—	12,624
2021	<u>(339)</u>	<u>—</u>	<u>(339)</u>
Totals	<u>\$ (25,515)</u>	<u>\$ —</u>	<u>\$ (25,515)</u>

There were no nonemployer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3%
Salary increases	4% to 17%, average, including inflation
Investment rate of return	7.5% per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 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 Tables with adjustments for mortality improvements based on Scale AA.

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

NOTE 5 PENSION PLAN (continued)

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>
U.S. Equity	24%	6.29%
Non U.S. Equity	16	6.75
Private Equity	11	11.32
Real Estate	8	3.48
Core Plus Fixed Income	28	2.04
Credit Opportunities	5	3.63
TIPS	5	1.91
Other Real Assets	2	6.24
Cash	<u>1</u>	(0.71)
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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%, 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% point lower (6.5%) or 1% point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Utility's proportionate share of the net pension liability	\$ <u>614,769</u>	\$ <u>351,132</u>	\$ <u>128,604</u>

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.

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

NOTE 5 PENSION PLAN (continued)

Payables to the Pension Plan

At December 31, 2016, the Utility reported payables to the defined benefit pension plan of approximately \$4,000 for legally required employer contributions and approximately \$2,000 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 6 MAJOR CUSTOMER

Electricity revenue for the years ended December 31, 2016 and 2015 includes revenue from the following major customer which accounted for 10% or more of the total electricity revenue of the Utility for those years.

<u>Customer</u>	Electricity revenue Year ended December 31	
	2016	2015
Customer A	\$1,202,830	\$ 906,913
	Customer receivable December 31	
	2016	2015
Customer A	\$ 109,117	\$ 65,283

NOTE 7 UTILITY RISK MANAGEMENT

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

Story City Municipal Electric Utility
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
Required Supplementary Information

	December 31 <u>2016</u>
Utility's proportion of the net pension liability	0.007107%
Utility's proportionate share of the net pension liability	\$351,132
Utility's total payroll	\$483,076
Utility's proportionate share of the net pension liability as a % of its covered-employee payroll	73%
Plan fiduciary net position as a % of the total pension liability	85%

See accompanying notes to required supplementary information - pension liability.

Story City Municipal Electric Utility
SCHEDULE OF UTILITY PENSION CONTRIBUTIONS
Iowa Public Employees' Retirement System
Required Supplementary Information

	Year ended December 31			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 44,485	\$ 44,917	\$ 43,288	\$ 42,129
Contributions in relation to the statutorily required contribution	<u>44,485</u>	<u>44,917</u>	<u>43,288</u>	<u>42,129</u>
Contribution deficiency (excess)	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
Utility's total payroll	\$ 483,076	\$ 498,568	\$ 474,469	\$ 464,793
Contributions as a percentage of total payroll	9.2%	9.0%	9.1%	9.1%

See accompanying notes to required supplementary information - pension liability.

Year ended December 31					
<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 41,345	\$ 38,314	\$ 31,758	\$ 29,057	\$ 26,819	\$ 25,654
<u>41,345</u>	<u>38,314</u>	<u>31,758</u>	<u>29,057</u>	<u>26,819</u>	<u>25,654</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ 489,963	\$ 505,151	\$ 450,722	\$ 434,967	\$ 429,813	\$ 413,259
8.4%	7.6%	7.0%	6.7%	6.2%	6.2%

Story City Municipal Electric Utility
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
Year ended December 31, 2016

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% per year measured from the member's first unreduced retirement age to a 6% 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.

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% to 3%.
- Decreased the assumed rate of interest on member accounts from 4% to 3.75% 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.

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.



INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Story City Municipal Electric Utility as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 10, 2017, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 10, 2017

**Story City Municipal Electric Utility
SUMMARY OF CAPITAL ASSETS AND
ACCUMULATED DEPRECIATION**

	Capital assets			December 31, 2016
	January 1, 2016	Additions	Deletions	
PRODUCTION				
Structures and improvements	\$ 1,455,034	\$ -	\$ -	\$ 1,455,034
Prime movers and generators	6,552,892	-	-	6,552,892
Accessory electrical equipment	150,349	10,171	-	160,520
Miscellaneous power plant equipment	<u>65,742</u>	<u>103,194</u>	-	<u>168,936</u>
Total production	<u>8,224,017</u>	<u>113,365</u>	<u>-</u>	<u>8,337,382</u>
TRANSMISSION				
Station equipment	1,569,187	-	-	1,569,187
Overhead interconnection line	<u>243,826</u>	<u>-</u>	<u>-</u>	<u>243,826</u>
Total transmission	<u>1,813,013</u>	<u>-</u>	<u>-</u>	<u>1,813,013</u>
DISTRIBUTION				
Land	5,000	-	-	5,000
Structures and improvements	1,727,099	-	-	1,727,099
Poles and fixtures	284,663	7,929	-	292,592
Overhead conductors and devices	429,817	2,311	-	432,128
Underground conductors and devices	1,555,111	492,557	-	2,047,668
Transformers	1,531,918	37,585	5,707	1,563,796
Services and meters	376,260	74,016	-	450,276
Security lights leased	15,067	1,416	-	16,483
Street lighting system	376,191	71	-	376,262
Transportation and other equipment	<u>762,105</u>	<u>49,861</u>	<u>-</u>	<u>811,966</u>
Total distribution	<u>7,063,231</u>	<u>665,746</u>	<u>5,707</u>	<u>7,723,270</u>
Totals	<u>\$17,100,261</u>	<u>\$ 779,111</u>	<u>\$ 5,707</u>	<u>\$17,873,665</u>

Accumulated depreciation

<u>January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2016</u>
\$ 766,765	\$ 32,275	\$ -	\$ 799,040
5,111,622	248,545	-	5,360,167
27,144	24,643	-	51,787
20,270	14,314	-	34,584
<u>5,925,801</u>	<u>319,777</u>	<u>-</u>	<u>6,245,578</u>
1,270,429	62,767	-	1,333,196
225,133	9,753	-	234,886
<u>1,495,562</u>	<u>72,520</u>	<u>-</u>	<u>1,568,082</u>
-	-	-	-
512,373	69,084	-	581,457
210,827	8,659	-	219,486
321,540	12,930	-	334,470
623,399	54,041	-	677,440
602,048	46,436	5,707	642,777
294,310	12,398	-	306,708
15,067	788	-	15,855
115,767	18,812	-	134,579
647,108	61,249	-	708,357
<u>3,342,439</u>	<u>284,397</u>	<u>5,707</u>	<u>3,621,129</u>
<u>\$10,763,802</u>	<u>\$ 676,694</u>	<u>\$ 5,707</u>	<u>\$11,434,789</u>

**Story City Municipal Electric Utility
EXPENSES**

	Year ended December 31	
	2016	2015
PRODUCTION		
Salaries	\$ 115,976	\$ 145,273
Payroll taxes	16,081	17,516
Employee benefits	60,044	59,601
Purchased power	3,353,137	3,274,590
Gas and oil	14,088	45,490
Maintenance	4,558	-
Supplies and expenses	36,805	14,086
Depreciation	<u>319,777</u>	<u>311,363</u>
	<u>3,920,466</u>	<u>3,867,919</u>
DISTRIBUTION		
Salaries	172,452	163,706
Payroll taxes	23,911	19,738
Employee benefits	30,821	27,661
Maintenance	13,595	26,355
Supplies and expenses	137,611	52,541
Depreciation	<u>356,917</u>	<u>339,420</u>
	<u>735,307</u>	<u>629,421</u>
ADMINISTRATION AND GENERAL		
Salaries	194,648	189,589
Payroll taxes	26,989	22,858
Employee benefits	25,476	22,506
Insurance	47,596	45,419
Property taxes	5,932	6,521
Audit	9,900	9,900
Other professional fees	6,820	4,020
Contribution	20,000	20,000
Uncollectible accounts	14,452	8,252
Supplies and expenses	119,587	151,666
Less overhead transfer	<u>(10,264)</u>	<u>(6,313)</u>
	<u>461,136</u>	<u>474,418</u>
Totals	<u>\$5,116,909</u>	<u>\$4,971,758</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Story City Municipal Electric Utility, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 10, 2017

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2016**

Part I—Findings Related to the Financial Statements

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

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2016**

Part II—Findings Related to Required Statutory Reporting

16-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Utility funds were noted.

16-II-B TRAVEL EXPENSES

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

16-II-C BUSINESS TRANSACTIONS

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

16-II-D BOARD MINUTES

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

16-II-E DEPOSITS AND INVESTMENTS

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

16-II-F BOND COVERAGE

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