

WINTERSET MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

ADDITIONAL REQUIRED AUDITOR'S REPORTS

Year Ended December 31, 2004

WINTERSET MUNICIPAL UTILITIES

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WINTERSET MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Walker	Board Chairman	March 8, 2005
Willard Short	Trustee	March 8, 2007
Nolan Collins	Trustee	March 8, 2009
Stephen Scott Wesselman	General Manager	Indefinite
Michael Wilkinson	Electric Superintendent	Indefinite
Steve Benshoof	Water Superintendent	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Winterset Municipal Utilities
Winterset, Iowa

We have audited the accompanying financial statements of the business type activities of the Winterset Municipal Utilities, as of and for the year ended December 31, 2004. These financial statements are the responsibility of Utilities officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements referred to in the following paragraph were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Winterset Municipal Utilities as of December 31, 2004, and the changes in cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

As described in Note 13, during the year ended December 31, 2004, the Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2005, on our consideration of the Winterset Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the Winterset Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended December 31, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Drapen, Smidgrass, Mickelson + Co., P.C.

May 25, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Winterset Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending December 31, 2004. We encourage readers to consider this information in conjunction with the Winterset Municipal Utilities financial statements, which follow.

Financial Highlights

The Winterset Municipal Utilities net water revenues increased by \$3,730,716 from the previous fiscal year. This increase is due to increased sales and refinancing debt payment in the previous year. Electric net revenues increased by \$939,722 from the previous fiscal year. This increase is due mainly to bond proceeds from the re-issuing of electric bonds.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows.

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Winterset Municipal Utilities financial activities.

The Winterset Municipal Utilities' financial statements consist of a statement of activities and changes in cash balances. The statement provided information about the activities of the water and electric as a whole, and presents an overall view of the water and electric finances.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statement.

Required supplementary information provided detailed information about the annual budget.

Basis of Accounting

The Winterset Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Winterset Municipal Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. The accounts of the Winterset Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance, receipts and disbursements.

Accordingly, the financial statements do not represent the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitation resulting from the use of cash basis accounting.

Reporting the Winterset Municipal Utilities Financial Activities

The statement of activities and changes in cash balance presents information showing how the Winterset Municipal Utilities cash balances changed during the most recent fiscal year.

The Winterset Municipal Utilities financial activities are displayed in the statement of activities and change in cash balance.

The business type activities of the Winterset Municipal Utilities include the collection of user charges for water and electric.

Fund Financial Statements

The Winterset Municipal Utilities has one kind of funds:

Proprietary funds account for the Winterset Municipal Utilities Enterprise Funds. The Winterset Municipal Utilities maintains two Enterprise Funds to provide separate information for the water and electric funds, considered to be major funds of the Winterset Municipal Utilities.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and change in cash balances.

Government-wide Financial Analysis

As noted earlier, the Winterset Municipal Utilities reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The Winterset Municipal Utilities does not report capital assets or depreciation on those assets as would be required by GAAP.

Business Type Activities

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Operating receipts:			
Charge for services	\$ 1,143,665	\$ 3,768,894	\$ 4,912,559
Operating disbursements:			
Business type activities	<u>710,302</u>	<u>3,042,711</u>	<u>3,753,013</u>
Excess of operating receipts over operating disbursements	\$ 433,363	\$ 726,183	\$ 1,159,546
Total non-operating receipts (disbursements):	<u>(425,509)</u>	<u>260,172</u>	<u>(165,337)</u>
Net change in cash balances	\$ 7,854	\$ 986,355	\$ 994,209
Cash balances, beginning of year	<u>1,428,464</u>	<u>651,178</u>	<u>2,079,642</u>
Cash balances, end of year	<u>\$ 1,436,318</u>	<u>\$ 1,637,533</u>	<u>\$ 3,073,851</u>

Winterset Municipal Utilities
Combined Statement of Cash Transactions
Year Ended December 31, 2003

	<u>Enterprise Fund 2003</u>
Receipts:	
Use of money and property	\$ 80,443
Charges for service	4,654,132
Miscellaneous	<u>61,090</u>
Total receipts	<u>\$ 4,795,665</u>
Disbursements:	
Water	\$ 4,923,693
Electric	<u>3,548,201</u>
Total disbursements	<u>\$ 8,471,894</u>
Deficiency of receipts under disbursements	<u>\$(3,676,229)</u>
Other financing sources (uses):	
Operating transfers in (out)	\$ ---
Total other financing sources	<u>\$ ---</u>
Excess of receipts and other financing sources over disbursements and other financing uses	\$(3,676,229)
Balance, beginning of year	<u>5,755,871</u>
Balance, end of year	<u>\$ 2,079,642</u>

The increase in the electric fund is due mainly to bond proceeds from the re-issuing of electric bonds.

Budgetary Highlights

In accordance with the Code of Iowa, the Winterset Municipal Utilities annually adopts a budget following the required public notice and hearing for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures (required public notice followed by a public hearing). The Winterset Municipal Utilities did not amend its budget during 2004.

Individual Major Business Type Fund Analysis

Water fund cash increased by \$7,854 due to increased sales.

Electric fund cash increased by \$986,355 due primarily to the receipt of \$885,798 in revenue bond proceeds.

Debt Administration

At year end, the Winterset Municipal Utilities had approximately \$4,305,000 in bonds compared to \$4,880,000 the last fiscal year. Debt decreased as a result of bond payments made during the year.

Economic Factors and Next Year's Budget and Rates

The Winterset Municipal Utility Board considers many factors when setting the 2005 fiscal year budget. The Board has considered our continuing commitment to the Cedar Lake Watershed as well as infrastructure maintenance and improvement.

The Utility Board is also involved in the development of a county lake, which could possibly be another source of water for Winterset.

These factors all contributed when adopting the fiscal year 2005 budget. The budget includes all business type activities, including water and electric expenditures. Steps implemented by the Winterset Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2005 fiscal year budget.

Contacting the Winterset Municipal Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Winterset Municipal Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stephen Wesselmann at (515)462-1422.

FINANCIAL STATEMENTS

WINTERSET MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
Year Ended December 31, 2004

Exhibit A

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/programs:			
Business type activities:			
Water	\$ 1,179,428	\$1,143,665	\$ -
Electric	3,695,716	3,768,894	-
Total business type activities	\$ 4,875,144	\$4,912,559	\$ -
General receipts:			
Interest on investments			
Bond proceeds			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			

The Notes to Financial Statements are an integral part of this statement.

<u>Program Receipts</u> Capital Grants, Contributions, and Restricted Interest	<u>Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets</u> Business Type Activities
\$ -	\$ (35,763)
<u>-</u>	<u>73,178</u>
<u>\$ -</u>	<u>\$ 37,415</u>
	\$ 27,680
	885,798
	<u>43,316</u>
	<u>\$ 956,794</u>
	\$ 994,209
	<u>2,079,642</u>
	<u>\$ 3,073,851</u>

WINTERSET MUNICIPAL UTILITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended December 31, 2004

Exhibit B

	Enterprise Fund		Total
	Water	Electric	
OPERATING RECEIPTS:			
Charge for service	\$ 1,143,665	\$ 3,768,894	\$ 4,912,559
TOTAL OPERATING RECEIPTS	<u>\$ 1,143,665</u>	<u>\$ 3,768,894</u>	<u>\$ 4,912,559</u>
OPERATING DISBURSEMENTS:			
Business type activities	\$ 710,302	\$ 3,042,711	\$ 3,753,013
TOTAL OPERATING DISBURSEMENTS	<u>\$ 710,302</u>	<u>\$ 3,042,711</u>	<u>\$ 3,753,013</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 433,363</u>	<u>\$ 726,183</u>	<u>\$ 1,159,546</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 19,369	\$ 8,311	\$ 27,680
Miscellaneous	24,248	19,068	43,316
Bond proceeds	-	885,798	885,798
Debt service	(469,126)	(653,005)	(1,122,131)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ (425,509)</u>	<u>\$ 260,172</u>	<u>\$ (165,337)</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 7,854	\$ 986,355	\$ 994,209
OPERATING TRANSFERS	-	-	-
NET CHANGE IN CASH BALANCES	\$ 7,854	\$ 986,355	\$ 994,209
CASH BALANCES BEGINNING OF YEAR	1,428,464	651,178	2,079,642
CASH BALANCES END OF YEAR	<u>\$ 1,436,318</u>	<u>\$ 1,637,533</u>	<u>\$ 3,073,851</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 155,258	\$ 1,099,978	\$ 1,255,236
Reserved for bond reserve funds	400,000	290,000	690,000
Reserved for improvements	482,111	88,718	570,829
Reserved for customer deposits	-	16,618	16,618
Unreserved	398,949	142,219	541,168
TOTAL CASH BASIS FUND BALANCES	<u>\$ 1,436,318</u>	<u>\$ 1,637,533</u>	<u>\$ 3,073,851</u>

The Notes to Financial Statements are an integral part of this statement.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 1. Summary of Significant Accounting Policies

Reporting Entity:

The Winterset Municipal Utilities is a component unit of the City of Winterset, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member board of trustees appointed by the City Council. The Utilities is financially accountable to the City of Winterset. 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 primary government 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 primary government. The Winterset Municipal Utilities has no component units.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utilities' nonfiduciary net assets. Net assets are reported in two categories:

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

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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.

The Utilities reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

The Electric Fund accounts for the operation and maintenance of the electric system.

Basis of Accounting:

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to 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 U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Cash and Time Deposits:

The Utilities pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Utilities makes disbursements and investments from the combined cash balance. Time deposits are stated at cost which approximates market. All interest is credited to the operating fund.

Restricted Assets:

The Utilities, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and investments) that can be used only to service outstanding debt.

Note 2. Cash and Pooled Investments

The Utilities' deposits in banks at December 31, 2004, 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 ensure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificate 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.

The Utilities' investments consisted solely of certificates of deposit during the year ended December 31, 2004.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 3. Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending <u>December 31,</u>	Revenue Notes	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 595,000	\$ 209,485
2006	915,000	180,362
2007	950,000	144,893
2008	985,000	105,556
2009	390,000	77,358
2010	405,000	61,368
2011	425,000	43,953
2012	440,000	25,040
2013	100,000	4,800
	<u>\$5,205,000</u>	<u>\$ 852,815</u>

The resolutions providing for the issuance of the water and electric revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate Water Revenue Sinking Account and a separate Electric Revenue Sinking Account for the purpose of making the note principal and interest payments when due.
- c. A reserve account shall be maintained solely for the purpose of paying principal or interest on the notes if the sinking account balance is insufficient to make such payments. The sum of \$200,000 shall be deposited into a Water Revenue Reserve Account from the proceeds of the issue. Thereafter, on the first day of each month, \$5,000 shall be deposited into the water reserve account until the balance reaches \$400,000. The sum of \$247,500 shall be deposited into an Electric Revenue Note Reserve Account from the proceeds of the issue. Thereafter, in

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 3. Notes Payable (continued)

each month, 25% of the required transfer to the sinking fund shall be deposited into this reserve account. Whenever either sum has been reduced by an expenditure, all of the net water and electric revenues after first making the required deposits into the sinking account shall be deposited to these accounts until the original balances are replenished.

- d. After first making the required payments into the sinking account and the required payments, if any, into the reserve account, and the reserve account contains the required balance, the sum of \$5,000 shall be deposited into a Water System Improvement Account on the first day of each month of each year until the sum on deposit is equal to \$300,000. The sum of \$3,500 shall be deposited into an Electric System Improvement Account each month until the sum on deposit is equal to \$200,000.
- e. All funds remaining in the Water Account after the payment of all maintenance and operating expenses and required transfers shall be placed in a Water Revenue Surplus Account. As long as the sinking account and reserve account are fully funded, the remaining portion of the annual accumulation in the surplus account may be made available to the Utilities as the board may from time to time direct.

The Utilities issued Electric Revenue Notes Series 2004 dated May 1, 2004, in the amount of \$900,000 to pay off the electric revenue notes dated May 1, 1995, at their call date of 2005 principle payment date.

Note 4. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 4. Pension and Retirement Benefits (continued)

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended December 31, 2004, 2003, and 2002 were \$35,857, \$36,215 and \$35,051 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to employees at December 31, 2004, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 28,290
Sick leave	<u>27,233</u>
Total	<u>\$ 55,523</u>

This liability has been computed based on rates of pay as of December 31, 2004. Sick leave time is cancelled when an employee leaves his/her employment with the Utility.

Note 6. Risk Management

The Utilities 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 by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 7. Loan Guaranty

On April 1, 1998, the Utilities entered into a Guaranty Agreement with the Central Iowa Power Cooperative (CIPCO). CIPCO executed a loan with the Rural Utilities Service for a rural development loan (RUS loan) in the amount of \$130,000 to be repayable over ten years at zero percent interest, the proceeds of which would be loaned by CIPCO to Merchandising Frontiers, Inc. (MFI) for use in expanding the Company's facilities in Winterset, Iowa. The Winterset Municipal Utilities was in favor of having the loan made by CIPCO to the Company and agreed to guarantee repayment of fifty percent of the loan if MFI defaults on repayment.

Note 8. Jointly Governed Organization

The Utilities participate in a jointly governed organization that provides goods or services to the customers of the Utilities but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating government. A Utility official is a member of the Community Advisory Committee of Iowa Rural Water.

Note 9. Joint Venture

The Utilities also participate in a joint venture that provides goods or services to the citizenry of the Utilities and meets the criteria of a joint venture because there is an ongoing financial interest or responsibility by the participating governments. The Utilities are a member of the South Iowa Municipal Electric Cooperative Association Board (SIMECA).

Note 10. Equipment Lease Purchase Agreement

In October 2003, the Utilities entered into a lease purchase transaction with a financial institution to finance the purchase of equipment with a total cost of \$60,239. The lease had 23 monthly payments beginning January 2004.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 11. Electric Generation Equipment Lease Purchase Agreement

In February 2002, the Utilities entered into a lease purchase agreement to acquire new electric generation equipment with South Iowa Municipal Electric Cooperative Association (SIMECA) with a total cost of \$2,162,266. SIMECA has issued revenue bonds to pay for the project and the Utility is not obligated for any of SIMECA's payments. The Utility is required to make monthly payments to SIMECA for the Utility's portion of the cost of the equipment related to the revenue bonds. The payment schedule is as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 115,000	\$ 89,463	\$ 204,463
2006	119,000	85,219	204,219
2007	123,000	80,528	203,528
2008	128,000	75,381	203,381
2009	133,000	69,766	202,766
2010	140,000	63,620	203,620
2011	147,000	56,908	203,908
2012	154,000	49,644	203,644
2013	160,000	41,871	201,871
2014	169,000	33,562	202,562
2015	176,000	24,676	200,676
2016	186,000	15,218	201,218
2017	<u>195,000</u>	<u>5,168</u>	<u>200,168</u>
	<u>\$1,945,000</u>	<u>\$691,024</u>	<u>\$2,636,024</u>

Note 12. Major Customer

A material part of the Utility's Electric and Water charges for services revenue is from five major customers. The loss of any one of these customers may not have a materially adverse effect on the Utility, however, the loss of any combination of these major customers could have a materially adverse effect on the Utility. During the year ended December 31, 2004, these customers accounted for approximately 22% of utility's electric revenue and 17% of the Utility's water revenue.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 13. Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended December 31, 2004. The statements create new basic financial statements for reporting the Utilities’ financial activities. The financial statements now include a government-wide financial statement and fund financial statements with present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

REQUIRED SUPPLEMENTARY INFORMATION

WINTERSET MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET
 Year Ended December 31, 2004

	<u>Actual</u>	<u>Less Funds not Required to be Budgeted</u>
RECEIPTS:		
Use of money and property	\$ 27,680	\$ -
Charges for services	4,912,559	-
Miscellaneous	43,316	-
Total receipts	<u>\$ 4,983,555</u>	<u>\$ -</u>
DISBURSEMENTS:		
Business type activities:		
Water	\$ 1,179,428	\$ -
Electric	3,695,716	-
Total disbursements	<u>\$ 4,875,144</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 108,411	\$ -
OTHER FINANCING SOURCES:		
Bond proceeds	<u>885,798</u>	<u>-</u>
DEFICIENCY OF RECEIPTS AND OTHER FINANCING SOURCES UNDER DISBURSEMENTS	\$ 994,209	\$ -
BALANCE, beginning of year	<u>2,079,642</u>	<u>-</u>
BALANCE, end of year	<u><u>\$ 3,073,851</u></u>	<u><u>\$ -</u></u>

The Notes to Financial Statements are an integral part of this statement.

<u>Net</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 27,680	\$ 34,450	\$ (6,770)
4,912,559	4,819,100	93,459
43,316	25,050	18,266
<u>\$ 4,983,555</u>	<u>\$ 4,878,600</u>	<u>\$ 104,955</u>
\$ 1,179,428	\$ 1,285,426	\$ 105,998
3,695,716	3,660,274	(35,442)
<u>\$ 4,875,144</u>	<u>\$ 4,945,700</u>	<u>\$ 70,556</u>
\$ 108,411	\$ (67,100)	\$ 175,511
<u>885,798</u>	<u>-</u>	<u>885,798</u>
\$ 994,209	<u>\$ (67,100)</u>	<u>\$ 1,061,309</u>
<u>2,079,642</u>		
<u>\$ 3,073,851</u>		

WINTERSET MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
December 31, 2004

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Utilities' budget is submitted with the City of Winterset's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Utilities' budget is included in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

WINTERSET MUNICIPAL UTILITIES
 SCHEDULE OF INDEBTEDNESS
 Year Ended December 31, 2004

	<u>Date Of Issue</u>	<u>Interest Rates</u>	<u>Schedule 1 Amount Originally Issued</u>
<u>OBLIGATION</u>			
Revenue Notes:			
Electric	05-01-95	5.10-6.20%	\$ 2,900,000
Water Refunding	11-01-02	2.80-4.80%	3,515,000
Electric Refunding	5-01-04	2.05-2.70%	900,000
Total			
Lease Purchase Agreement:			
Electric Generation Equipment	03-01-02	2.70-5.30%	\$ 2,162,266
Electric Equipment	10-30-03	0%	\$ 60,239

See accompanying independent auditor's report.

<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 1,365,000	\$ -	\$ 245,000	\$ 1,120,000	\$ 74,761	\$ -
3,515,000	-	330,000	3,185,000	136,983	-
<u>-</u>	<u>900,000</u>	<u>-</u>	<u>900,000</u>	<u>10,741</u>	<u>-</u>
<u>\$ 4,880,000</u>	<u>\$ 900,000</u>	<u>\$ 575,000</u>	<u>\$ 5,205,000</u>	<u>\$ 222,485</u>	<u>\$ -</u>
<u>\$ 2,056,000</u>	<u>\$ -</u>	<u>\$ 111,000</u>	<u>\$ 1,945,000</u>	<u>\$ 93,251</u>	<u>\$ -</u>
<u>\$ 57,729</u>	<u>\$ -</u>	<u>\$ 30,120</u>	<u>\$ 27,609</u>	<u>\$ -</u>	<u>\$ -</u>

WINTERSET MUNICIPAL UTILITIES
NOTE MATURITIES
December 31, 2004

Schedule 2

<u>Year Ending December 31,</u>	Revenue Notes			
	Electric Issued May 1, 1995		Water Refunding Issued November 1, 2002	
	Interest Rates	Amount	Interest Rates	Amount
2005	5.85%	\$ 255,000	3.10%	\$ 340,000
2006	6.00%	270,000	3.40%	350,000
2007	6.10%	290,000	3.70%	360,000
2008	6.20%	305,000	3.90%	375,000
2009		-	4.10%	390,000
2010		-	4.30%	405,000
2011		-	4.45%	425,000
2012		-	4.60%	440,000
2013		-	4.80%	100,000
		\$ 1,120,000		\$ 3,185,000

See accompanying independent auditor's report.

<u>Revenue Notes</u>		
<u>Electric Refunding</u>		
<u>Issued May 1, 2004</u>		
<u>Interest</u>		<u>Total</u>
<u>Rates</u>	<u>Amount</u>	<u>Revenue</u>
		<u>Notes</u>
	\$ -	\$ 595,000
2.05%	295,000	915,000
2.40%	300,000	950,000
2.70%	305,000	985,000
	-	390,000
	-	405,000
	-	425,000
	-	440,000
	-	100,000
	<u>\$ 900,000</u>	<u>\$ 5,205,000</u>

WINTERSET MUNICIPAL UTILITIES
INFORMATION REQUIRED BY THE NOTE RESOLUTIONS - UNAUDITED
December 31, 2004

Schedule 3

The following insurance policies were in force at December 31, 2004
(Some amounts may include coverage for the City also.)

<u>Insurer</u>	<u>Coverage</u>	<u>Amount</u>	<u>Amount</u>
Employers Mutual Casualty Company	Property, including buildings, generation equipment and other contents	4/1/04 - 4/1/05	\$ 15,840,314
	90% Co-insurance Deductible		1,000
	General liability - Per occurrence	4/1/04 - 4/1/05	1,000,000
	General aggregate	4/1/04 - 4/1/05	2,000,000
	Products/Operation aggregate	4/1/04 - 4/1/05	2,000,000
	Personal and/or advertising injury	4/1/04 - 4/1/05	1,000,000
	Fire damage	4/1/04 - 4/1/05	100,000
	Medical expense	4/1/04 - 4/1/05	5,000
	Automobile - liability	4/1/04 - 4/1/05	1,000,000
	Boiler and machinery - Property damage	4/1/04 - 4/1/05	1,000,000
	Deductible		1,000
	Umbrella liability - Per occurrence	4/1/04 - 4/1/05	4,000,000
	Aggregate	4/1/04 - 4/1/05	4,000,000
	Retained limit	4/1/04 - 4/1/05	10,000
	Linebacker declaration - Per occurrence	4/1/04 - 4/1/05	1,000,000
	Aggregate	4/1/04 - 4/1/05	1,000,000
	Retained limit	4/1/04 - 4/1/05	2,500
	Inland Marine - Contractors equipment	4/1/04 - 4/1/05	331,205
	Deductible	4/1/04 - 4/1/05	250
	Workmen's compensation	4/1/04 - 4/1/05	500,000
Fidelity bond - Per employee	4/1/04 - 4/1/05	200,000	
Forgery or alteration	4/1/04 - 4/1/05	200,000	
Deductible	4/1/04 - 4/1/05	2,000	
Commercial crime - Inside premises	4/1/04 - 4/1/05	100,000	
Outside premises	4/1/04 - 4/1/05	100,000	

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES
INFORMATION REQUIRED BY THE NOTE RESOLUTIONS - UNAUDITED
December 31, 2004

Schedule 3
(continued)

Rates in effect at December 31, 2004

1. Electric rates:

Residential -	\$6.00 minimum plus: \$.068 per kilowatt hour (kwh)
Commercial -	\$15.00 minimum plus: \$.077 per kwh
Industrial -	\$25.00 minimum plus: \$.044 per kwh
Rural service -	\$6.00 minimum plus: \$.068 per kwh

2. Water rates:

All service classes -	First 100 cubic feet - minimum \$7.65 Next 400 cubic feet at \$6.25 per 100 cubic feet (ccf) Next 500 cubic feet at \$5.75 per ccf Next 1,000 cubic feet at \$5.35 per ccf Next 48,000 cubic feet at \$4.40 per ccf Balance at \$1.70 per ccf
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See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees of the
Winterset Municipal Utilities
Winterset, Iowa

We have audited the financial statements of the Winterset Municipal Utilities as of and for the year ended December 31, 2004, and have issued our report thereon dated May 25, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Winterset Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of the 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Winterset Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Winterset Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Winterset Municipal Utilities and other parties to whom the Winterset Municipal Utilities may report and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Winterset Municipal Utilities 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.

Drapen, Smidgrasso, Mitchell & Co., P.C.

May 25, 2005

WINTERSET MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended December 31, 2004

Reportable Conditions:

2004-A Segregation of duties - A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Winterset Municipal Utilities.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review the procedures as suggested.

Conclusion - Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.
- (2) Certified Budget - Disbursements during the year ended December 31, 2004, did not exceed the amounts budgeted in the Business-type function.
- (3) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (5) Business Transactions - No business transactions between the Utilities and Utilities employees or officials were noted.

- (6) 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.
- (7) Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but was not.

The Utility published all gross salaries as required by an Attorney General's opinion dated April 12, 1979.

- (a) Although the Trustee minutes were published, the following tested periods did not include a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Meeting on 9/29/2004

Auditor's Recommendation - We recommend the Utility comply with the requirements of 372.13(6) of the Code of Iowa.

Response - The Utilities will comply with the requirements of Chapter 372.13(6) of the Code of Iowa.

Conclusion - Response acknowledged.

- (8) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- (9) Revenue Notes - No violations of the resolutions providing for the issuance of the water and electric revenue notes were noted.