

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

FINANCIAL REPORT

December 31, 2004

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-8
FINANCIAL STATEMENTS	
Balance sheets	9-10
Statements of revenues, expenses, and changes in municipal equity	11
Statements of cash flows	12-13
Notes to financial statements	14-20
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	21
SUPPLEMENTARY INFORMATION	
Summary of property and equipment and accumulated depreciation	22-23
Expenses	24
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25-26
SCHEDULE OF FINDINGS	27-28

Story City Municipal Electric Utility
OFFICIALS
December 31, 2004

BOARD OF TRUSTEES

Bob Huffer, Chairman
Pat Faga, Vice Chairman
Dan Webster, Secretary

Term expires

June 1, 2008
June 1, 2010
June 1, 2006

ADMINISTRATOR

Jeff Ishmael

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Story City Municipal Electric Utility, a component unit of the City of Story City, Iowa, as of December 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in municipal equity, and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions 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 audits provide a reasonable basis for our 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, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2005 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 grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 21, 2005

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, 2004 and 2003. 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 balance sheet includes all of the Utility's assets and liabilities 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 statement of revenues, expenses, and changes in municipal equity. This statement measures 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, noncapital financing, 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 \$240,239 to \$10,730,587
- Total noncurrent assets whose use is limited increased by \$151,087 to \$2,271,622
- Total property and equipment decreased by \$93,130 to \$6,679,242
- Total municipal equity increased by \$420,247 to \$7,014,265
- Total long-term debt decreased by \$350,000
- Total revenue increased by \$596,208, or 19%, primarily due to increased electricity revenue resulting from a corresponding increase in the cost of purchased power, effective in early 2004
- Expenses increased by \$639,959, or 26% to \$3,113,843, primarily due to the increase in cost of purchased power

Financial Analysis of the Utility

The balance sheet and the statement of revenues, expenses, and changes in municipal equity report the net assets of the Utility and the changes in them. The Utility's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Utility's net assets 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.

A summary of the Utility's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	December 31	
	2004	2003
Current assets	\$ 1,744,623	\$ 1,550,641
Noncurrent assets whose use is limited	2,271,622	2,120,535
Property and equipment	6,679,242	6,772,372
Other asset	<u>35,100</u>	<u>46,800</u>
Total assets	<u>\$10,730,587</u>	<u>\$10,490,348</u>
Current liabilities	\$ 776,322	\$ 596,330
Long-term debt, less current maturities	<u>2,940,000</u>	<u>3,300,000</u>
Total liabilities	<u>\$ 3,716,322</u>	<u>\$ 3,896,330</u>
Invested in capital assets, net of related debt	\$ 3,379,242	\$ 3,122,372
Restricted	908,492	952,865
Unrestricted	<u>2,726,531</u>	<u>2,518,781</u>
Total municipal equity	<u>\$ 7,014,265</u>	<u>\$ 6,594,018</u>

As depicted in Table 1, total assets increased in fiscal year 2004 to \$10,730,587. The change in total assets results primarily from proceeds from continuing operating income.

Revenues, Expenses, and Changes in Municipal Equity

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

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Municipal Equity

	Year ended December 31	
	2004	2003
Electricity revenue	\$3,703,527	\$3,109,612
Other revenue	15,945	13,652
Total operating revenue	<u>3,719,472</u>	<u>3,123,264</u>
Salaries	325,990	326,750
Other expenses	2,355,031	1,721,531
Depreciation expense	<u>432,822</u>	<u>425,603</u>
Total expenses	<u>3,113,843</u>	<u>2,473,884</u>
Operating income	<u>605,629</u>	<u>649,380</u>
Interest income	44,921	37,948
Service donated to municipality	(31,354)	(32,675)
Interest expense	(187,249)	(200,341)
Amortization of financing costs	<u>(11,700)</u>	<u>(11,700)</u>
Total nonoperating gains (losses)	<u>(185,382)</u>	<u>(206,768)</u>
Change in municipal equity	420,247	442,612
Total municipal equity, beginning	<u>6,594,018</u>	<u>6,151,406</u>
Total municipal equity, ending	<u>\$7,014,265</u>	<u>\$6,594,018</u>

Operating and Financial Performance

The following summarizes the Utility's statement of revenues, expenses and changes in municipal equity between December 31, 2004 and 2003.

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

Volume: During the year ended December 31, 2004, the number of Utility customers remained very comparable with 2003. However, electricity charges increased considerably to \$3,703,527 in 2004 as the Utility entered into a new purchased power agreement beginning in early 2004.

Price Increase: As a result of the new purchased power agreement described above, the Utility initiated an electricity rate study in early 2004 and implemented price increases to reflect the Utility's increased cost of electricity.

Other Revenue

Other revenue increased to \$15,945 in 2004 compared to \$13,652 in 2003.

Expenses

Approximately 10% of Utility's expenses are for salaries. Total salaries decreased slightly to \$325,990 in 2004 from \$326,750 in 2003.

Approximately 75% of Utility's expenses are for supplies and expenses. Total supplies and expenses increased by 37% to \$2,355,031 in 2004 from \$1,721,531 in 2003. The most significant increase related to the increased costs of purchased power in 2004.

Approximately 15% of Utility's expenses relate to depreciation expense. Depreciation expense increased to \$432,822 in 2004 from \$425,603 in 2003.

Nonoperating Gains (Losses)

Nonoperating gains (losses) changed to \$(185,382) from \$(206,768) in 2003, primarily due to a decrease in interest expense.

Property and Equipment

At the end of 2004, the Utility had \$6,679,242 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment.

A summary of the Utility's property and equipment is presented in Table 3.

Table 3
Property and Equipment

	December 31	
	2004	2003
Production	\$ 7,636,122	\$ 7,749,352
Transmission	1,770,763	1,770,763
Distribution	2,861,916	2,624,749
General	62,749	112,826
Subtotal	12,331,550	12,257,690
Less accumulated depreciation	(5,652,308)	(5,485,318)
Property and equipment	<u>\$ 6,679,242</u>	<u>\$ 6,772,372</u>

Debt Administration

At year end, the Utility had a combined \$3,300,000 in current and long-term debt related to Electric Revenue Notes, Series 2000 and 2002. The overall principal balance decreased by \$350,000 in fiscal year 2004 as compared to 2003. More detailed information about the Utility's outstanding debt is presented in the Notes to Financial Statements. Note that the Notes represent 89% of the Utility's total liabilities as of year end.

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
BALANCE SHEETS**

ASSETS	December 31	
	2004	2003
CURRENT ASSETS		
Cash	\$ 479,549	\$ 476,612
Certificate of deposit	200,000	200,000
Assets whose use is limited, required for current liabilities	436,870	432,330
Customer receivables, less allowance for uncollectible accounts 2004 and 2003 \$15,000	353,874	263,077
Other receivables	63,238	-
Inventories	199,152	167,002
Prepaid insurance	11,940	11,620
Total current assets	<u>1,744,623</u>	<u>1,550,641</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,800,000	1,600,000
Restricted for payment of long-term debt and interest		
Cash	490,092	544,465
Certificates of deposit	400,000	400,000
Interest receivable	18,400	8,400
	<u>2,708,492</u>	<u>2,552,865</u>
Less assets whose use is limited and that are required for current liabilities	436,870	432,330
Noncurrent assets whose use is limited	<u>2,271,622</u>	<u>2,120,535</u>
PROPERTY AND EQUIPMENT	12,331,550	12,257,690
Less accumulated depreciation	5,652,308	5,485,318
Total property and equipment	<u>6,679,242</u>	<u>6,772,372</u>
OTHER ASSET		
Unamortized financing costs	35,100	46,800
 Totals	<u>\$10,730,587</u>	<u>\$10,490,348</u>

See Notes to Financial Statements.

December 31

LIABILITIES AND MUNICIPAL EQUITY

	2004	2003
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 360,000	\$ 350,000
Accounts payable	302,675	128,727
Accrued interest	76,870	82,330
Customer deposits	12,613	12,706
Payroll taxes	11,540	11,367
Sales taxes	7,043	5,698
Property taxes	5,581	5,502
Total current liabilities	776,322	596,330
 LONG-TERM DEBT , less current maturities	 2,940,000	 3,300,000
 MUNICIPAL EQUITY		
Invested in capital assets, net of related debt	3,379,242	3,122,372
Restricted	908,492	952,865
Unrestricted	2,726,531	2,518,781
Total municipal equity	7,014,265	6,594,018
 Totals	 \$10,730,587	 \$10,490,348

Story City Municipal Electric Utility
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN MUNICIPAL EQUITY

	Year ended December 31	
	2004	2003
REVENUE		
Electricity revenue		
Residential	\$1,294,956	\$1,082,671
Commercial	470,328	334,217
Large power	<u>1,938,243</u>	<u>1,692,724</u>
	3,703,527	3,109,612
Other	15,945	13,652
Total revenue	<u>3,719,472</u>	<u>3,123,264</u>
EXPENSES		
Production	2,452,255	1,829,633
Distribution	340,136	354,023
Administration and general	<u>321,452</u>	<u>290,228</u>
Total expenses, including depreciation		
expense 2004 \$432,822; 2003 \$425,603	<u>3,113,843</u>	<u>2,473,884</u>
Operating income	<u>605,629</u>	<u>649,380</u>
NONOPERATING GAINS (LOSSES)		
Interest income	44,921	37,948
Service donated to municipality	(31,354)	(32,675)
Interest expense	(187,249)	(200,341)
Amortization of financing costs	<u>(11,700)</u>	<u>(11,700)</u>
Total nonoperating gains (losses)	<u>(185,382)</u>	<u>(206,768)</u>
Change in municipal equity	420,247	442,612
TOTAL MUNICIPAL EQUITY		
Beginning	<u>6,594,018</u>	<u>6,151,406</u>
Ending	<u>\$7,014,265</u>	<u>\$6,594,018</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$3,581,376	\$3,056,859
Cash paid to suppliers for goods and services	(2,374,751)	(1,684,482)
Cash paid to employees for services	(325,990)	(326,750)
Other operating revenue received	<u>15,945</u>	<u>13,652</u>
Net cash provided by operating activities	<u>896,580</u>	<u>1,059,279</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(240,228)	(48,841)
Interest paid on long-term debt	(192,709)	(205,171)
Principal payments on long-term debt	<u>(350,000)</u>	<u>(335,000)</u>
Net cash (used in) capital and related financing activities	<u>(782,937)</u>	<u>(589,012)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	400,000	800,000
Purchase of investments	(400,000)	(800,000)
Interest received	<u>34,921</u>	<u>36,348</u>
Net cash provided by investing activities	<u>34,921</u>	<u>36,348</u>
NET INCREASE IN CASH	148,564	506,615
CASH		
Beginning	<u>2,621,077</u>	<u>2,114,462</u>
Ending	<u>\$2,769,641</u>	<u>\$2,621,077</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 605,629	\$ 649,380
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	432,822	425,603
Service donated to municipality	(31,354)	(32,675)
Changes in assets and liabilities		
(Increase) in customer receivables	(90,797)	(20,078)
(Increase) decrease in other receivables	(63,238)	30,615
(Increase) decrease in inventories	(32,150)	20,612
(Increase) in prepaid insurance	(320)	(1,380)
Increase (decrease) in accounts payable, net of amounts for property and equipment	74,484	(13,155)
Increase (decrease) in customer deposits	(93)	38
Increase in payroll taxes	173	14
Increase in sales taxes	1,345	1,627
Increase (decrease) in property taxes	79	(1,322)
Net cash provided by operating activities	<u>896,580</u>	<u>1,059,279</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 479,549	\$ 476,612
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,800,000	1,600,000
Restricted for payment of long-term debt and interest, cash	490,092	544,465
Statement of cash flows totals	<u>\$2,769,641</u>	<u>\$2,621,077</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

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Utility has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Investments and Interest Income

The Utility's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Interest Income (continued)

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Interest income from investments is reported as nonoperating gains.

Inventories

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

Property and Equipment

Property and equipment 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 five to thirty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

Municipal Equity

Municipal equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt 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 municipal equity

Restricted municipal equity 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 municipal equity

Unrestricted municipal equity has no externally imposed restrictions on use.

Revenues, Expenses and Changes in Municipal Equity

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

Credit Policy

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform with the December 31, 2004 presentation with no effect on change in municipal equity.

NOTE 2 CASH AND INVESTMENTS

The Utility's deposits 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 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.

NOTE 3 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended December 31, 2004:

	Sinking Fund	Reserve Account	Total
BALANCE , beginning of year	\$ 552,865	\$ 400,000	\$ 952,865
Transfers from current assets, cash	498,336	-	498,336
Principal and interest payments	(542,709)	-	(542,709)
BALANCE , end of year	<u>\$ 508,492</u>	<u>\$ 400,000</u>	<u>\$ 908,492</u>

NOTE 4 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation is as follows:

	December 31, 2004		December 31, 2003	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Production	\$ 7,636,122	\$3,417,830	\$ 7,749,352	\$3,280,610
Transmission	1,770,763	933,625	1,770,763	870,359
Distribution	2,861,916	1,247,841	2,624,749	1,242,102
General	62,749	53,012	112,826	92,247
Totals	<u>\$12,331,550</u>	<u>\$5,652,308</u>	<u>\$12,257,690</u>	<u>\$5,485,318</u>

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

NOTE 4 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended December 31, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 7,749,352	\$ —	\$ 113,230	\$ 7,636,122
Transmission	1,770,763	—	—	1,770,763
Distribution	2,624,749	339,692	102,525	2,861,916
General	112,826	—	50,077	62,749
Totals	<u>12,257,690</u>	<u>339,692</u>	<u>265,832</u>	<u>12,331,550</u>
Less accumulated depreciation	<u>(5,485,318)</u>	<u>(432,822)</u>	<u>(265,832)</u>	<u>(5,652,308)</u>
Net property and equipment	<u>\$ 6,772,372</u>	<u>\$ (93,130)</u>	<u>\$ —</u>	<u>\$ 6,679,242</u>

A summary of changes in property and equipment for the year ended December 31, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 8,076,631	\$ —	\$ 327,279	\$ 7,749,352
Transmission	1,770,763	—	—	1,770,763
Distribution	2,635,730	43,121	54,102	2,624,749
General	160,504	5,720	53,398	112,826
Totals	<u>12,643,628</u>	<u>48,841</u>	<u>434,779</u>	<u>12,257,690</u>
Less accumulated depreciation	<u>(5,494,494)</u>	<u>(425,603)</u>	<u>(434,779)</u>	<u>(5,485,318)</u>
Net property and equipment	<u>\$ 7,149,134</u>	<u>\$ (376,762)</u>	<u>\$ —</u>	<u>\$ 6,772,372</u>

NOTE 5 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended December 31</u>	
	<u>2004</u>	<u>2003</u>
Electric Revenue Notes, Series 2000	\$2,955,000	\$2,970,000
Electric Revenue Refunding Notes, Series 2002	<u>345,000</u>	<u>680,000</u>
Total	3,300,000	3,650,000
Less current maturities	<u>360,000</u>	<u>350,000</u>
Long-term debt, net of current maturities	<u>\$2,940,000</u>	<u>\$3,300,000</u>

Electric Revenue Notes, Series 2000

The Utility issued Electric Revenue Notes, Series 2000 in the original amount of \$3,010,000. The Notes are payable serially each February 1 to 2011 at interest rates ranging from 5.65% to 6%. The Notes are payable solely from future net revenues of the Utility.

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

NOTE 5 LONG-TERM DEBT (continued)

Electric Revenue Refunding Notes, Series 2002

The Utility issued Electric Revenue Refunding Notes, Series 2002 in the original amount of \$1,000,000. The Notes are payable serially each February 1 to 2005 at an interest rate of 3.9%. The Notes are payable solely from future net revenues of the Utility.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of each of the Notes at December 31, 2004.

Each of the Notes contain a number of covenants regarding the operation of the Utility, and the Utility is in substantial compliance with those covenants.

Each loan agreement calls for monthly deposits into a Sinking Fund to provide for interest upon and principal of the Notes as the same become due. In addition, a Reserve Account is required in the amount of \$400,000. This required Reserve Account balance is to then be maintained throughout the Notes repayment period. The amounts set aside as restricted assets exceeded the requirements of the Sinking Fund and the Reserve Account at December 31, 2004. Future funding requirements of the Sinking Fund during the next five years total 2005 \$587,983; 2006 \$592,763; 2007 \$596,897; 2008 \$594,930; 2009 \$599,986.

Maturities required on long-term debt are as follows:

<u>Year ending December 31</u>	<u>Electric Revenue Notes</u>		<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Series 2000</u>	<u>Series 2002</u>			
2005	\$ 15,000	\$ 345,000	\$ 360,000	\$ 178,944	\$ 538,944
2006	420,000	—	420,000	159,823	579,823
2007	445,000	—	445,000	135,059	580,059
2008	475,000	—	475,000	108,490	583,490
2009	500,000	—	500,000	80,090	580,090
Thereafter	<u>1,100,000</u>	<u>—</u>	<u>1,100,000</u>	<u>66,633</u>	<u>1,166,633</u>
Total	2,955,000	345,000	3,300,000	729,039	4,029,039
Less current maturities	<u>15,000</u>	<u>345,000</u>	<u>360,000</u>	<u>178,944</u>	<u>538,944</u>
Total long-term debt	<u>\$2,940,000</u>	<u>\$ —</u>	<u>\$2,940,000</u>	<u>\$ 550,095</u>	<u>\$3,490,095</u>

A summary of changes in long-term debt for the year ended December 31, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Electric Revenue Notes, Series 2000	\$2,970,000	\$ —	\$ 15,000	\$2,955,000	\$ 15,000
Electric Revenue Refunding Notes, Series 2002	<u>680,000</u>	<u>—</u>	<u>335,000</u>	<u>345,000</u>	<u>345,000</u>
Totals	<u>\$3,650,000</u>	<u>\$ —</u>	<u>\$ 350,000</u>	<u>\$3,300,000</u>	<u>\$ 360,000</u>

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

NOTE 5 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended December 31, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Electric Revenue Notes, Series 2000	\$2,985,000	\$ —	\$ 15,000	\$2,970,000	\$ 15,000
Electric Revenue Refunding Notes, Series 2002	<u>1,000,000</u>	<u>—</u>	<u>320,000</u>	<u>680,000</u>	<u>335,000</u>
Totals	<u>\$3,985,000</u>	<u>\$ —</u>	<u>\$ 335,000</u>	<u>\$3,650,000</u>	<u>\$ 350,000</u>

NOTE 6 DEFINED BENEFIT PENSION PLAN

The Utility 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.

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2004, 2003 and 2002 were \$19,937, \$20,445 and \$20,122, respectively, equal to the required contributions for each year.

NOTE 7 MAJOR CUSTOMERS

Electricity sales for the years ended December 31, 2004 and 2003 include sales to the following major customers, each of which accounted for 10% or more of the total electricity sales of the Utility for those years.

<u>Customer</u>	<u>Electricity sales Year ended December 31</u>	
	<u>2004</u>	<u>2003</u>
Customer A	\$ 577,483	\$ 493,129
Customer B	<u>373,144</u>	<u>309,046</u>
Totals	<u>\$ 950,627</u>	<u>\$ 802,175</u>
<u>Customer</u>	<u>Customer receivable December 31</u>	
	<u>2004</u>	<u>2003</u>
Customer A	\$ 44,629	\$ 35,387
Customer B	<u>28,592</u>	<u>24,999</u>
Totals	<u>\$ 73,221</u>	<u>\$ 60,386</u>

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

NOTE 8 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.

NOTE 9 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

As of December 31, 2004, the Governmental Accounting Standards Board, GASB, had issued several statements not yet implemented by the Utility. The statements which might impact the Utility are as follows:

GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, will be effective for the Utility beginning with its year ending December 31, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposits risks.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the Utility beginning with its year ending December 31, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

The Utility's management has not yet determined the effect these Statements will have on the Utility's financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

Our report on our audits of the basic financial statements of Story City Municipal Electric Utility for 2004 and 2003 appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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 the audits 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 21, 2005

Story City Municipal Electric Utility
SUMMARY OF PROPERTY AND EQUIPMENT AND
ACCUMULATED DEPRECIATION

	Property and equipment			December 31, 2004
	January 1, 2004	Additions	Retirements	
PRODUCTION				
Structures and improvements	\$ 1,564,297	\$ -	\$ -	\$ 1,564,297
Fuel holders and accessories	1,875	-	-	1,875
Prime movers and generators	6,068,661	-	71,061	5,997,600
Accessory electric equipment	104,384	-	32,034	72,350
Miscellaneous power plant equipment	10,135	-	10,135	-
Total production	<u>7,749,352</u>	<u>-</u>	<u>113,230</u>	<u>7,636,122</u>
TRANSMISSION				
Station equipment	1,471,237	-	-	1,471,237
Overhead interconnection line	299,526	-	-	299,526
Total transmission	<u>1,770,763</u>	<u>-</u>	<u>-</u>	<u>1,770,763</u>
DISTRIBUTION				
Land	27,000	-	-	27,000
Structures and improvements	14,491	-	-	14,491
Poles and fixtures	250,020	4,977	1,177	253,820
Overhead conductors and devices	241,018	97,707	85	338,640
Underground conductors and devices	825,107	12,103	-	837,210
Transformers	626,890	62,619	1,624	687,885
Services and meters	257,230	5,127	-	262,357
Security lights leased	14,304	645	645	14,304
Street lighting system	48,525	-	-	48,525
Transportation equipment	320,164	156,514	98,994	377,684
Total distribution	<u>2,624,749</u>	<u>339,692</u>	<u>102,525</u>	<u>2,861,916</u>
GENERAL				
Office furniture and equipment	66,214	-	43,692	22,522
Tools, shop and garage equipment	46,612	-	6,385	40,227
Total general	<u>112,826</u>	<u>-</u>	<u>50,077</u>	<u>62,749</u>
 Totals	 <u>\$12,257,690</u>	 <u>\$ 339,692</u>	 <u>\$ 265,832</u>	 <u>\$12,331,550</u>

Accumulated depreciation			
January 1, 2004	Current provision	Retirements	December 31, 2004
\$ 223,373	\$ 57,026	\$ -	\$ 280,399
1,737	94	-	1,831
2,967,666	188,389	71,061	3,084,994
77,699	4,941	32,034	50,606
10,135	-	10,135	-
<u>3,280,610</u>	<u>250,450</u>	<u>113,230</u>	<u>3,417,830</u>
714,296	52,207	-	766,503
156,063	11,059	-	167,122
<u>870,359</u>	<u>63,266</u>	<u>-</u>	<u>933,625</u>
-	-	-	-
13,312	509	-	13,821
138,984	7,558	1,177	145,365
188,857	8,695	85	197,467
199,424	24,935	-	224,359
248,804	19,722	1,624	266,902
181,869	7,794	-	189,663
14,304	645	645	14,304
47,329	1,196	-	48,525
209,219	37,210	98,994	147,435
<u>1,242,102</u>	<u>108,264</u>	<u>102,525</u>	<u>1,247,841</u>
53,129	5,819	43,692	15,256
39,118	5,023	6,385	37,756
<u>92,247</u>	<u>10,842</u>	<u>50,077</u>	<u>53,012</u>
<u>\$5,485,318</u>	<u>\$ 432,822</u>	<u>\$ 265,832</u>	<u>\$5,652,308</u>

**Story City Municipal Electric Utility
EXPENSES**

	<u>Year ended December 31</u>	
	<u>2004</u>	<u>2003</u>
PRODUCTION		
Salaries	\$ 102,424	\$ 92,076
Payroll taxes	14,550	13,394
Employee benefits	26,757	24,509
Purchased power	1,913,108	1,177,758
Gas and oil	112,582	164,022
Maintenance	4,118	36,984
Supplies and expenses	28,266	60,966
Depreciation	<u>250,450</u>	<u>259,924</u>
	<u>2,452,255</u>	<u>1,829,633</u>
DISTRIBUTION		
Salaries	95,667	108,840
Payroll taxes	13,590	15,833
Employee benefits	14,169	14,356
Maintenance	12,395	25,487
Supplies and expenses	32,785	33,872
Depreciation	<u>171,530</u>	<u>155,635</u>
	<u>340,136</u>	<u>354,023</u>
ADMINISTRATION AND GENERAL		
Salaries	127,899	125,834
Payroll taxes	18,169	18,304
Employee benefits	18,469	16,912
Insurance	48,329	46,109
Property taxes	5,580	4,902
Audit	8,900	8,800
Other professional fees	3,450	4,160
Uncollectible accounts	11,715	5,736
Supplies and expenses	74,735	58,636
Depreciation	10,842	10,044
Less overhead transfer	<u>(6,636)</u>	<u>(9,209)</u>
	<u>321,452</u>	<u>290,228</u>
Totals	<u>\$3,113,843</u>	<u>\$2,473,884</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 the financial statements of Story City Municipal Electric Utility as of and for the year ended December 31, 2004, and have issued our report thereon dated March 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's 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 an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, 2004 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 present in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the City of Story City and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 21, 2005

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2004**

Part I—Findings Related to the Financial Statements

No matters regarding reportable conditions, 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, 2004**

Part II—Findings Related to Required Statutory Reporting

04-II-A OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

04-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Utility funds were noted.

04-II-C TRAVEL EXPENSES

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

04-II-D BUSINESS TRANSACTIONS

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

04-II-E BOARD MINUTES

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

04-II-F 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.

04-II-G REVENUE NOTES

The Utility was in compliance with all requirements of their revenue note agreements.

04-II-H 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.