

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORTS  
Years Ended December 31, 2005 and 2004**

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

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**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**OFFICIALS**

<b><u>NAME OF OFFICIAL</u></b>	<b><u>OFFICIAL TITLE</u></b>	<b><u>TERM EXPIRES</u></b>
Carl Patterson	Trustee	January 01, 2008
Richard Hogan	Trustee	January 01, 2006
Scott Akin	Trustee	January 01, 2010
Robert Cline	General Manager	Indefinite
Loretta Wetzel	Office Manager	Indefinite



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Corning Municipal Utilities  
Corning, Iowa

We have audited the accompanying balance sheets of Corning Municipal Utilities, a component unit of the City of Corning, Iowa, and the related statements of operations, fund equity, cash flows and indebtedness for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Corning Municipal Utilities' 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 contained 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 general purpose 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 Corning Municipal Utilities as of December 31, 2005 and 2004, 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.

In accordance with Government Auditing Standards, we have also issued a report dated January 20, 2006, on our consideration of Corning Municipal Utilities' 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. These reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 28 are not required parts of the basic financial statements, but are 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the general purpose financial statements taken as a whole. The supplemental information included in Schedules 1-6 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Kiesling Associates LLP*

West Des Moines, Iowa  
January 20, 2006

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Corning 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 year ended December 31, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statements which follow.

**2005 Financial Highlights**

- Revenues of the Utilities' enterprise activities increased 26%, or approximately \$625,500, from 2004 to 2005.
- Program expenses increased 13%, or approximately \$315,500, from 2004 to 2005. Water, electric and gas expenses increased approximately \$36,100, \$76,900 and \$202,500, respectively.
- The Utilities' net assets increased 5%, or approximately \$180,300, from December 31, 2004, to December 31, 2005. Of this amount, the net assets of water, electric, gas and agency funds increased (decreased) by approximately \$(80,900), \$240,500, \$22,000 and (\$1,300), respectively.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial statements.

The Financial Statements consist of a Balance Sheet, Statement of Operations, Statement of Fund Equity, Statement of Cash Flows and the Statement of Indebtedness. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the separate funds. In addition, a schedule of plant for each fund provides details about the additions and retirements made during the year ended December 31, 2005.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in the Utilities' fund equity may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Operations presents information showing how the Utilities' fund equity changed during the most recent year. All changes in fund equity are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Operations report one kind of activity:

- Business type activities include the waterworks, electrical and gas departments. These activities are financed primarily by user charges.

*Fund Financial Statements*

The Utilities has two kinds of funds:

- (1) Proprietary funds account for the Utilities' Enterprise Funds. Proprietary funds account for most of the Utilities' basic services. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the Balance Sheet and the Statement of Operations. The Enterprise Funds include the Water, Electric and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong.

The financial statements required for proprietary funds include a balance sheet, statement of operations, changes in fund equity and a statement of cash flows.

- (2) Fiduciary funds account for the Utilities' Agency Funds. These are funds through which the Utilities accounts for billing and collection of the City of Corning's garbage and sewer fees.

The Utilities is responsible for ensuring assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Utilities excludes these activities from the financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary fund equity and a statement of changes in fiduciary fund equity.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS**

As noted earlier, fund equity may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the fund equity for business type activities.

<u>Fund Equity</u>	
December 31, 2005	
Current and other assets	\$ 2,394,956
Capital assets	<u>9,282,308</u>
Total assets	<u>11,677,264</u>
Long-term liabilities	7,218,289
Other liabilities	<u>833,314</u>
Total liabilities	<u>8,051,603</u>
Fund equity:	
Invested in capital assets, net of related debt	3,735,308
Restricted	55,671
Unrestricted	<u>(165,318)</u>
Total fund equity	<u>\$ 3,625,661</u>

Net assets of business type activities increased from 2004 by approximately \$180,300, or 5%. The largest portion of the Utilities' fund equity is invested in capital assets (e.g., land, buildings, infrastructure and equipment), less related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted fund equity represents resources that are subject to withdrawal restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted fund equity, the part of fund equity that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(165,318) at the end of the year. The deficit is due to increased depreciation and interest expenses resulting from the construction of the new water treatment facility.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**INDIVIDUAL MAJOR FUND ANALYSIS**

**Proprietary Fund Highlights**

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended 2005 with a \$980,581 fund equity balance compared to the prior year ending fund equity balance of \$1,061,530.

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical distribution and generation systems, ended 2005 with a \$2,054,270 fund equity balance compared to the prior year ending fund equity balance of \$1,813,736.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' natural gas system, ended 2005 with a \$535,139 fund equity balance compared to the prior year ending fund equity balance of \$513,177. The following are the major reasons for the changes in fund balances in the major proprietary funds from the prior year.

- The Water Fund saw increased maintenance and operations costs due to a new water treatment facility being in operation.
- The Electric Fund increased customer rates as of October 15, 2004, in an effort to fund future capital projects planned for 2006 and 2007.
- The Gas Fund saw a large increase in the cost of purchased energy which also resulted in a large increase in gas services provided as a portion of the rate charged is variable in accordance with the market.

**Agency Fund Highlights**

The Sewer Fund, which accounts for the billing and collection of the City of Corning's sewer system, ended 2005 with a \$45,872 fund equity balance compared to the prior year ending fund equity balance of \$46,729.

The Garbage Fund, which accounts for the billing and collection of the City of Corning's garbage collection system, ended 2005 with a \$9,799 fund equity balance compared to the prior year ending fund equity balance of \$10,220.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the Utilities did not amend its budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Utilities' capital assets include land, buildings and improvements, equipment, water distribution systems, electrical distribution systems, gas distribution systems and other infrastructure. Capital assets for business type activities totaled \$9,282,308 (net of accumulated depreciation) at December 31, 2005 and \$7,492,988 as of December 31, 2004. See Note 2 to the financial statements for more information about the Utilities' capital assets.

**CORNING MUNICIPAL UTILITIES  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

The major capital outlays for business type activities during the year included engineering costs and installation related to a new cooling tower, new generator, and the construction of a new storage building.

**Long-Term Debt**

At December 31, 2005 and 2004, the Utilities had \$5,547,000 and \$3,702,080, respectively, in total long-term debt outstanding for business type activities. Other obligations include compensated absences and unearned revenue. Additional information about the Utilities' long-term debt is presented in Note 7 to the financial statements.

**ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE**

Several economic factors affected decisions made by the Utilities in setting its 2006 budget. Some of these factors included the plans for future replacement of the electrical generation plant, increased capacity needs for customers and rate increases planned for the future.

**CONTACTING THE UTILITIES' MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities' finances and operating activities. If you have any questions or require additional information please contact the General Manager, Corning Municipal Utilities, 501 Benton Avenue, Corning, Iowa 50841.

**FINANCIAL STATEMENTS**

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit A**

**BALANCE SHEETS  
December 31, 2005 and 2004**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
ELECTRIC PLANT IN SERVICE	\$ 3,079,808	\$ 2,768,332
Less accumulated depreciation	<u>2,189,837</u>	<u>2,211,384</u>
	889,971	556,948
Electric plant under construction	<u>1,814,029</u>	<u>205,706</u>
	<u>2,704,000</u>	<u>762,654</u>
 WATER PLANT IN SERVICE	 7,244,577	 7,214,631
Less accumulated depreciation	<u>816,234</u>	<u>611,222</u>
	<u>6,428,343</u>	<u>6,603,409</u>
 GAS PLANT IN SERVICE	 749,514	 707,944
Less accumulated depreciation	<u>599,549</u>	<u>581,019</u>
	<u>149,965</u>	<u>126,925</u>
 RESTRICTED ASSETS		
Cash-security deposits	42,020	32,623
Special construction account	190,171	-
Water plant project	<u>1,181</u>	<u>1,151</u>
	<u>233,372</u>	<u>33,774</u>
 NONCURRENT ASSETS		
Unamortized debt issuance costs	101,301	71,685
Intangibles	<u>45,000</u>	<u>45,000</u>
	<u>146,301</u>	<u>116,685</u>
 CURRENT ASSETS		
Cash and cash equivalents	564,165	562,877
Temporary investments	690,000	785,000
Customer accounts receivable	21,365	6,447
Unbilled revenues	602,738	397,492
Other accounts receivable	14,875	11,168
Plant materials and operating supplies	105,302	106,796
Prepaid insurance	16,838	17,195
Prepaid taxes	-	502
	<u>2,015,283</u>	<u>1,887,477</u>
 TOTAL ASSETS	 <u>\$ 11,677,264</u>	 <u>\$ 9,530,924</u>

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit A**

**BALANCE SHEETS  
December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	\$ 3,735,308	\$ 3,790,908
Fund balance-agency funds (restricted)	55,671	56,949
Unrestricted	<u>(165,318)</u>	<u>(402,465)</u>
	<u>3,625,661</u>	<u>3,445,392</u>
 <b>LONG-TERM LIABILITIES</b>		
Compensated absences	64,916	61,923
Unearned revenue	1,869,373	1,861,818
Long-term debt	<u>5,284,000</u>	<u>3,544,080</u>
	<u>7,218,289</u>	<u>5,467,821</u>
 <b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer deposits	<u>42,020</u>	<u>32,623</u>
 <b>CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS</b>		
Accounts payable	411,458	317,569
Unearned revenue	116,836	109,519
Current portion of long-term debt	<u>263,000</u>	<u>158,000</u>
	<u>791,294</u>	<u>585,088</u>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	 <u><u>\$ 11,677,264</u></u>	 <u><u>\$ 9,530,924</u></u>

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit B**

**STATEMENTS OF OPERATIONS  
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>		
Electric service	\$ 1,205,891	\$ 943,058
Water service	504,638	487,253
Gas service	1,224,480	901,141
SIRWA revenue	131,470	109,519
	<u>3,066,479</u>	<u>2,440,971</u>
<b>OPERATING EXPENSES</b>		
Purchased energy	1,511,443	1,247,610
Operations and maintenance	553,769	498,802
Depreciation	289,757	286,233
Customer accounts expense	71,841	70,200
Administrative and general	279,303	285,047
General taxes	4,939	7,647
	<u>2,711,052</u>	<u>2,395,539</u>
<b>OPERATING INCOME</b>	<u>355,427</u>	<u>45,432</u>
<b>OTHER INCOME (EXPENSE)</b>		
Income from merchandising and custom work, net	810	762
Interest income	32,335	12,113
Other income charges	(54,635)	(56,284)
	<u>(21,490)</u>	<u>(43,409)</u>
<b>INCOME BEFORE FIXED CHARGES</b>	<u>333,937</u>	<u>2,023</u>
<b>FIXED CHARGES</b>		
Interest	166,839	116,165
Interest during construction	(14,449)	-
	<u>152,390</u>	<u>116,165</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 181,547</u>	<u>\$ (114,142)</u>

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Exhibit C

**STATEMENTS OF FUND EQUITY  
Years Ended December 31, 2005 and 2004**

	Invested in Capital Assets, Net of Related Debt	Fund Balance Agency Funds	Unrestricted	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance at December 31, 2003	\$ 3,702,272	\$ 36,612	\$ (199,687)	\$ 3,539,197
Add:				
Net income, enterprise funds	88,636	-	(202,778)	(114,142)
Net change in agency funds	<u>                    -</u>	<u>          20,337</u>	<u>                    -</u>	<u>          20,337</u>
Balance at December 31, 2004	3,790,908	56,949	(402,465)	3,445,392
Add:				
Net income, enterprise funds	(55,600)	-	237,147	181,547
Net change in agency funds	<u>                    -</u>	<u>          (1,278)</u>	<u>                    -</u>	<u>          (1,278)</u>
Balance at December 31, 2005	<u>\$ 3,735,308</u>	<u>\$ 55,671</u>	<u>\$ (165,318)</u>	<u>\$ 3,625,661</u>

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Exhibit D

**STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2005 and 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 181,547	\$ (114,142)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Sewer and garbage billings less amount remitted to City	(1,278)	20,337
Depreciation	299,128	295,430
Unearned revenues	7,555	(109,519)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	(223,871)	(41,812)
Prepayments	859	(855)
Materials and supplies	1,494	7,842
Unamortized debt issuance costs	(29,616)	4,216
Increase (Decrease) in:		
Accounts payable and deposits	97,395	33,566
Compensated absences	2,993	7,307
Accrued liabilities, taxes and other current liabilities	-	(365)
Net cash provided by operating activities	336,206	102,005
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Change in restricted assets	(199,598)	(3,499)
Net cash used in non-capital financing activities	(199,598)	(3,499)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(2,077,111)	(146,062)
Cost of removal, net of salvage	1,871	(21,952)
Repayment of long-term debt	(158,000)	(154,000)
Proceeds from long-term borrowing	2,002,920	-
Net cash used in capital and related financing activities	(230,320)	(322,014)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of temporary investments	3,525,000	1,650,000
Purchase of temporary investments	(3,430,000)	(1,520,000)
Net cash provided by investing activities	95,000	130,000
Net Increase (Decrease) in Cash and Cash Equivalents	1,288	(93,508)
Cash and Cash Equivalents at Beginning of Year	562,877	656,385
Cash and Cash Equivalents at End of Year	\$ 564,165	\$ 562,877

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Exhibit E**

**STATEMENT OF INDEBTEDNESS  
Year Ended December 31, 2005**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<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>
Revenue Bonds									
Water	4/16/2002	3.00 %	<u>\$4,005,080</u>	<u>\$3,702,080</u>	<u>\$ 2,920</u>	<u>\$ (158,000)</u>	<u>\$3,547,000</u>	<u>\$ 117,479</u>	<u>\$ 8,746</u>
Electric	5/15/2005	Various	<u>\$2,000,000</u>	<u>\$ -</u>	<u>\$2,000,000</u>	<u>\$ -</u>	<u>\$2,000,000</u>	<u>\$ 49,395</u>	<u>\$ 6,805</u>

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Corning Municipal Utilities is a component unit of the City of Corning whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The Utilities' board of trustees operates the City Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. Corning Municipal Utilities provides water, electric and gas services on a user charge basis to the general public and other governmental units within Adams County, Iowa.

Basis of Presentation

The accounting policies of Corning Municipal Utilities conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities.

Government-wide Financial Statements - The Balance Sheet and the Statement of Operations report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Balance Sheet presents the Utilities' nonfiduciary assets and liabilities, with the difference reported as fund equity. Fund equity is reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

*Unrestricted fund equity* consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Operations demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued)

The accounting records of Corning Municipal Utilities are maintained in accordance with the particular uniform system of accounts for each separate utility function. The electric department uses the system as prescribed by the Federal Energy Regulatory Commission, while the water and gas departments' system is published by the National Association of Regulatory Utility Commissioners.

Reporting Entity

The financial statements include enterprise and agency funds of Corning Municipal Utilities, a component unit of the City of Corning, Iowa.

Fund Accounting

The accounts of the 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, fund balances, revenues and expenditures or expenses. The various funds and their designated purposes are as follows:

Proprietary Funds

Enterprise Funds - Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The Enterprise Funds include electric, water and gas operations.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Utilities as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations. The Agency Funds include sewer and garbage service monies collected and held by the Utilities as an agent for the City of Corning, Iowa, which operates these facilities.

Measurement Focus and Basis of Accounting

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

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus and Basis of Accounting (Continued)

In reporting the financial activity of its proprietary funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The assets and liabilities of the Agency Funds are accounted for using the modified accrual basis of accounting.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Temporary Investments

Investments with a maturity of less than one year are considered temporary investments and are carried at cost.

Plant Materials and Operating Supplies

Plant materials and operating supplies are valued at the lower of cost or market with cost determined by the average cost method.

Long-Lived Assets

The Utilities would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Utility Plant

Utility plant in service is based partially on an original cost study prepared by Kiesling Associates LLP and existing plant records prepared by the Utilities in 1981. Subsequent additions are recorded at original cost, including the capitalized costs of certain payroll taxes, employee benefits and interest incurred during the construction period. Renewals and betterment of units of property are charged to utility plant in service. When utility plant is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with removal cost less any salvage realized. Repairs and renewals of minor items of property are included in maintenance expense. No gains or losses are recognized in connection with routine retirements of depreciable property.

Depreciation of utility plant is computed on the straight-line method by application of rates, based upon the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

Revenue Recognition

The Utilities recognizes revenues related to the Enterprise Funds when earned regardless of the period in which they are billed.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2005, disbursements did not exceed the budgeted amount.

**NOTE 2. DEPRECIATION**

The provisions for depreciation for 2005 and 2004 are \$299,128 and \$295,421, respectively, of which \$9,371 and \$9,188, respectively, were distributed through a clearing account. The depreciation provision less the amount cleared was charged to expense against the following operations:

	2005	2004
Electric	\$ 73,227	\$ 82,666
Water	198,562	184,832
Gas	17,968	18,735
	\$ 289,757	\$ 286,233

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 2. DEPRECIATION (Continued)**

At December 31, 2005 and 2004, utility plant in service included the following major classifications:

	2005	2004
Electric Plant in Service:		
Production Plant	\$ 1,608,268	\$ 1,241,746
Transmission Plant	102,024	102,024
Distribution Plant	1,186,282	1,234,069
General Plant	183,234	190,493
Subtotal	3,079,808	2,768,332
Water Plant in Service:		
Source of Supply and Pumping Plant	5,604,899	5,582,474
Distribution Plant	1,433,838	1,427,050
General Plant	205,840	205,107
Subtotal	7,244,577	7,214,631
Gas Plant in Service:		
Transmission and Distribution Plant	619,555	578,229
General Plant	129,959	129,715
Subtotal	749,514	707,944
Total utility plant in service	\$ 11,073,899	\$ 10,690,907

The individual rates applied to the average cost of the several classifications of depreciable utility plant produced the following composite depreciation rates for the years ended December 31, 2005 and 2004:

	2005	2004
Electric	2.50 %	3.07 %
Water	2.75 %	2.61 %
Gas	2.47 %	2.65 %

**NOTE 3. EMPLOYEE BENEFITS**

Corning Municipal 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.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 3. EMPLOYEE BENEFITS (Continued)**

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the three years ended December 31, 2005, 2004, and 2003, were \$19,603, \$19,005 and \$14,052 respectively, equal to the required contributions for each year.

**NOTE 4. DEPOSITS AND INVESTMENTS**

The Utilities' deposits at December 31, 2005, were entirely covered by federal depository insurance or by the Iowa State Sinking Fund for banks and savings associations 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 Utilities are 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 City Council; 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 are categorized to give an indication at the level of risk assumed by the Utilities at year-end. The Utilities' investments are all category 1, which means that the investments are all insured or registered or the securities are held by the Utilities or its agents in the Utilities' name.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Investments are stated at fair value.

The Utilities' deposits and investments at December 31, 2005, are shown below:

Change and petty cash fund	\$ 300
Checking accounts	592,559
Certificates of deposit	770,000
Savings accounts	<u>124,678</u>
Total cash, cash equivalents and temporary investments	\$ <u>1,487,537</u>

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 5. INTANGIBLES**

During 2003, the Utilities entered into an agreement with MidAmerican Energy to purchase six customers at a cost of \$45,000.

The Company annually assesses its recorded balances of goodwill and indefinite lived intangible assets for impairment. As a result, the Company determined no impairment needed to be recorded for the years ended December 31, 2005 and 2004.

**NOTE 6. DEFERRED COMPENSATION PLAN**

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows the Utilities' employees to defer a portion of their current salary until future years. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the Utilities, without being restricted to the provision of benefits under the plan, subject only to the claims of the Utilities' general creditors.

The Utilities is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 7. BONDS PAYABLE**

Annual debt service requirements to maturity for Water and Electric Revenue Bonds are as follows:

Year Ending December 31	Revenue Bonds Water		Revenue Bonds Electric	
	Issued April 16, 2002		Issued May 15, 2005	
	Principal	Interest	Principal	Interest
2006	\$ 163,000	\$ 103,877	\$ 100,000	\$ 81,327
2007	168,000	98,912	105,000	78,019
2008	173,000	93,797	110,000	74,335
2009	178,000	88,532	110,000	70,403
2010	183,000	83,117	115,000	66,210
2011	189,000	77,537	120,000	61,685
2012	195,000	71,777	125,000	56,845
2013	200,000	65,852	130,000	51,680
2014	206,000	59,762	135,000	46,180
2015	213,000	53,477	140,000	40,335
2016	219,000	46,997	150,000	34,025
2017	226,000	40,322	155,000	27,238
2018	232,000	33,452	160,000	20,070
2019	239,000	26,387	170,000	12,395
2020	247,000	19,097	175,000	4,200
2021	254,000	11,582	-	-
2022	262,000	3,893	-	-
	<u>\$ 3,547,000</u>	<u>\$ 978,370</u>	<u>\$ 2,000,000</u>	<u>\$ 724,947</u>

The Water Revenue Bonds were issued for the purpose of defraying the cost of constructing a new water plant facility. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

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

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing a new water treatment facility as approved in the project plan.

The Utilities is not required to establish a sinking or reserve account by the Water Revenue Bond resolution.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 7. BONDS PAYABLE (Continued)**

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2005.

The Electric Revenue Bonds were issued for the purpose of defraying the cost of constructing new generators. The bonds are payable solely from the income and proceeds of the Electric Fund in accordance with the bond agreement. The proceeds of the Electric Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

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

- (a) The notes will only be redeemed from the future net revenues of the Electric Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing new generators as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Electric Revenue Bond resolution and has done so in accordance with the agreement.

Of the funds received for the Electric Revenue Bonds, all funds were advanced as of December 31, 2005.

**NOTE 8. COMPENSATED ABSENCES**

The Utilities' employees accumulate vacation and sick leave hours for subsequent use or for payment upon retirement. Upon retirement, the Utilities pay up to 160 hours of accumulated vacation and up to 720 hours of accumulated sick leave. Any vacation and sick leave accumulated is allowed to be taken while in the employment of the Utilities.

As of December 31, 2005 and 2004, the liability for accrued vacation and sick leave is \$64,917 and \$61,923, respectively. The amount expected to be paid from current resources is not significant.

**NOTE 9. UNEARNED REVENUE**

In conjunction with the construction of the new water treatment facility, the Utilities received \$2,336,716 from Southwestern Iowa Rural Water Association (SIRWA) related to future usage of the new water plant facility. SIRWA does not possess any ownership rights in the water plant facility. Therefore, the payment received from them is being recognized as revenue over the period of repayment of the bonds used to purchase the new facility (20 years). During 2005, there was a true-up for final amounts remitted to the Utilities by SIRWA as final project costs were determined and agreed upon by both entities.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2005 and 2004**

**NOTE 9. UNEARNED REVENUE (Continued)**

The unearned revenue will be recognized as follows:

2006	\$	116,836
2007		116,836
2008		116,836
2009		116,836
2010		116,836
2011-2022		1,402,029

**NOTE 10. RISK MANAGEMENT**

Corning Municipal 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 coverage. The Utilities assume 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 11. CONCENTRATION OF CREDIT RISK**

The Utilities grants credit to its customers, all of whom are located in the municipal service area.

**NOTE 12. RELATED PARTY TRANSACTIONS**

The Utilities had business transactions totaling \$47,870 between the Utilities and a Board member during the year ended December 31, 2005.

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

The Utilities has entered into a purchase commitment to purchase two new generators for the electrical plant. The contract with Caterpillar, Inc. has a bid amount of approximately \$1,000,000. The total estimated cost of the project is approximately \$1,000,000 and will be completed during 2006. Of this total, approximately \$715,000 is included in electrical plant under construction at December 31, 2005.

**NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION**

Accounts payable includes \$109,925 and \$96,717 at December 31, 2005 and 2004, respectively, relating to utility plant and equipment additions placed in service during 2005 and 2004.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Comparison of Receipts, Disbursements and Changes in Balances -  
Actual to Budget (Cash Basis)  
Year Ended December 31, 2005**

	GAAP Basis Financial Statements	Adjustments	Adjusted to Cash Basis	Cash Basis Budget [1]	Variance
<b>Receipts</b>					
Charges for services	\$ 3,066,479	\$ (212,278)	\$ 2,854,201	\$ 2,675,000	\$ 179,201
Use of money and property	32,335	7,305	39,640	18,000	21,640
Miscellaneous	810	(2,045)	(1,235)	14,500	(15,735)
	<u>3,099,624</u>	<u>(207,018)</u>	<u>2,892,606</u>	<u>2,707,500</u>	<u>185,106</u>
<b>Disbursements</b>					
Cash	2,618,949	(260,785)	2,358,164	2,573,900	(215,736)
Noncash	299,128	(299,128)	-	N/A	-
	<u>2,918,077</u>	<u>(559,913)</u>	<u>2,358,164</u>	<u>2,573,900</u>	<u>(215,736)</u>
Excess of receipts over disbursements	181,547	352,895	534,442	133,600	400,842
<b>Add (Reduce):</b>					
Operating activities cash flow	155,937	(352,465)	(196,528)	N/A	
Salvage, net cost of removal	1,871	-	1,871	N/A	
Capital expenditures	(2,077,111)	-	(2,077,111)	N/A	[3]
Purchase of Mid-American customers	-	-	-	N/A	[3]
Debt financing activities	1,844,920	-	1,844,920	N/A	[3]
Net payment of agency funds	(1,278)	(430)	(1,708)	N/A	[3]
Net funds increase (decrease)	<u>105,886</u>	<u>-</u>	<u>105,886</u>	<u>133,600</u>	
Beginning funds January 1, 2005	<u>1,381,651</u>	<u>-</u>	<u>1,381,651</u>	<u>1,269,000</u>	[2]
Ending funds December 31, 2005	<u>\$ 1,487,537</u>	<u>\$ -</u>	<u>\$ 1,487,537</u>	<u>\$ 1,402,600</u>	[2]

[1] Home and Community Environment

[2] Adjusted amounts from budget to reflect actual beginning of the year cash and investment balances and expected end of the year balances, accordingly.

[3] Non-program expenditures

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY REPORTING  
Year Ended December 31, 2005**

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

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

**OTHER SUPPLEMENTARY INFORMATION**

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT  
December 31, 2005**

ASSETS

	Electric	Water	Gas	Sewer	Garbage	Total
<b>ELECTRIC PLANT IN SERVICE</b>	\$ 3,079,808					\$ 3,079,808
Less accumulated depreciation	<u>2,189,837</u>					<u>2,189,837</u>
	889,971					889,971
Electric plant under construction	<u>1,814,029</u>					<u>1,814,029</u>
	<u>2,704,000</u>					<u>2,704,000</u>
<b>WATER PLANT IN SERVICE</b>		\$ 7,244,577				7,244,577
Less accumulated depreciation		<u>816,234</u>				<u>816,234</u>
		<u>6,428,343</u>				<u>6,428,343</u>
<b>GAS PLANT IN SERVICE</b>			\$ 749,514			749,514
Less accumulated depreciation			<u>599,549</u>			<u>599,549</u>
			<u>149,965</u>			<u>149,965</u>
<b>RESTRICTED ASSETS</b>						
Cash-security deposits	15,685	4,215	22,120			42,020
Special construction account	190,171	-	-			190,171
Water plant project	-	1,181	-			1,181
	<u>205,856</u>	<u>5,396</u>	<u>22,120</u>			<u>233,372</u>
<b>NONCURRENT ASSETS</b>						
Unamortized debt issuance costs	33,833	67,468	-			101,301
Intangibles	<u>45,000</u>	-	-			<u>45,000</u>
	<u>78,833</u>	<u>67,468</u>	-			<u>146,301</u>
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	308,950	139,454	69,219	\$ 38,261	\$ 8,281	564,165
Temporary investments	615,000	-	75,000	-	-	690,000
Customer accounts receivable	9,597	5,886	(3,247)	7,611	1,518	21,365
Unbilled revenues	142,673	58,054	402,011	-	-	602,738
Interfund receivable (payable)	155,505	(201,755)	46,250	-	-	-
Other accounts receivable	7,229	-	7,646	-	-	14,875
Plant materials and operating supplies	30,190	43,349	31,763	-	-	105,302
Prepaid insurance	9,533	3,231	4,074	-	-	16,838
	<u>1,278,677</u>	<u>48,219</u>	<u>632,716</u>	<u>45,872</u>	<u>9,799</u>	<u>2,015,283</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,267,366</u>	<u>\$ 6,549,426</u>	<u>\$ 804,801</u>	<u>\$ 45,872</u>	<u>\$ 9,799</u>	<u>\$ 11,677,264</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT  
December 31, 2005**

LIABILITIES AND FUND EQUITY

	Electric	Water	Gas	Sewer	Garbage	Total
<b>FUND EQUITY</b>						
Invested in capital assets, net of related debt	\$ 704,000	\$ 2,881,343	\$ 149,965	\$ -	\$ -	\$ 3,735,308
Fund balance-agency funds	-	-	-	45,872	9,799	55,671
Unrestricted	<u>1,350,270</u>	<u>(1,900,762)</u>	<u>385,174</u>	<u>-</u>	<u>-</u>	<u>(165,318)</u>
	<u>2,054,270</u>	<u>980,581</u>	<u>535,139</u>	<u>45,872</u>	<u>9,799</u>	<u>3,625,661</u>
 <b>LONG-TERM LIABILITIES</b>						
Compensated absences	32,458	16,229	16,229			64,916
Unearned revenue	-	1,869,373	-			1,869,373
Long-term debt	<u>1,900,000</u>	<u>3,384,000</u>	<u>-</u>			<u>5,284,000</u>
	<u>1,932,458</u>	<u>5,269,602</u>	<u>16,229</u>			<u>7,218,289</u>
 <b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>						
Customer deposits	<u>15,685</u>	<u>4,215</u>	<u>22,120</u>			<u>42,020</u>
 <b>CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS</b>						
Accounts payable	164,953	15,192	231,313			411,458
Unearned revenue	-	116,836	-			116,836
Current portion of long-term debt	<u>100,000</u>	<u>163,000</u>	<u>-</u>			<u>263,000</u>
	<u>264,953</u>	<u>295,028</u>	<u>231,313</u>			<u>791,294</u>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>						
	<u>\$ 4,267,366</u>	<u>\$ 6,549,426</u>	<u>\$ 804,801</u>	<u>\$ 45,872</u>	<u>\$ 9,799</u>	<u>\$ 11,677,264</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Schedule 2

**SCHEDULE OF INCOME AND FUND EQUITY BY DEPARTMENT  
Year Ended December 31, 2005**

	Electric	Water	Gas	Total (Memorandum Only)
<b>OPERATING REVENUES</b>				
Residential sales	\$ 478,492	\$ 364,190	\$ 573,961	\$ 1,416,643
Commercial sales	383,806	72,844	388,756	845,406
Public authority sales	332,354	54,889	258,561	645,804
SIRWA revenue	-	131,470	-	131,470
Other miscellaneous	11,239	12,715	3,202	27,156
	<u>1,205,891</u>	<u>636,108</u>	<u>1,224,480</u>	<u>3,066,479</u>
<b>OPERATING EXPENSES</b>				
Purchased energy	501,500	-	1,009,943	1,511,443
Operations and maintenance	215,737	289,118	48,914	553,769
Depreciation	73,227	198,562	17,968	289,757
Meter reading	14,155	10,336	10,464	34,955
Customer records and collections	9,061	3,314	11,314	23,689
Customer rebates	7,903	-	5,294	13,197
Total customer accounts expense	<u>821,583</u>	<u>501,330</u>	<u>1,103,897</u>	<u>2,426,810</u>
Administrative and general salaries	63,475	38,980	56,522	158,977
Office supplies and expense	5,178	4,325	5,293	14,796
Outside services employed	(2,193)	8,563	12,072	18,442
General insurance	16,138	13,687	5,704	35,529
General administration	23,921	17,181	10,457	51,559
Total general and administrative expense	<u>106,519</u>	<u>82,736</u>	<u>90,048</u>	<u>279,303</u>
Use tax	1,127	-	377	1,504
Property tax	3,435	-	-	3,435
Total general taxes	<u>4,562</u>	<u>-</u>	<u>377</u>	<u>4,939</u>
	<u>932,664</u>	<u>584,066</u>	<u>1,194,322</u>	<u>2,711,052</u>
<b>OPERATING INCOME</b>	<u>273,227</u>	<u>52,042</u>	<u>30,158</u>	<u>355,427</u>
<b>OTHER INCOME (EXPENSE)</b>				
Income from merchandising and custom work, net	(153)	290	673	810
Interest income	24,734	1,143	6,458	32,335
Other income charges	(22,328)	(16,982)	(15,325)	(54,635)
	<u>2,253</u>	<u>(15,549)</u>	<u>(8,194)</u>	<u>(21,490)</u>
<b>INCOME BEFORE FIXED CHARGES</b>	275,480	36,493	21,964	333,937
<b>FIXED CHARGES</b>				
Interest	49,395	117,442	2	166,839
Interest during construction	(14,449)	-	-	(14,449)
	<u>34,946</u>	<u>117,442</u>	<u>2</u>	<u>152,390</u>
<b>NET INCOME (LOSS)</b>	240,534	(80,949)	21,962	181,547
<b>FUND EQUITY, JANUARY 1, 2005</b>	<u>1,813,736</u>	<u>1,061,530</u>	<u>513,177</u>	<u>3,388,443</u>
<b>FUND EQUITY, DECEMBER 31, 2005</b>	<u>\$ 2,054,270</u>	<u>\$ 980,581</u>	<u>\$ 535,139</u>	<u>\$ 3,569,990</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule 3**

**SCHEDULE OF AGENCY FUND NET ASSETS  
December 31, 2005**

	Agency Funds 12/31/2004	Billed	Collected	Paid	Agency Funds 12/31/2005
<u>ASSETS</u>					
Non-pooled cash:					
Sewer rental	\$ 39,627	\$ -	\$ 458,823	\$ (460,189)	\$ 38,261
Garbage collection	8,625	-	102,026	(102,370)	8,281
Total cash	48,252	-	560,849	(562,559)	46,542
Receivables:					
Sewer rental	7,102	462,687	(462,178)	-	7,611
Garbage collection	1,595	102,556	(102,633)	-	1,518
Total receivables	8,697	565,243	(564,811)	-	9,129
Net assets held in agency funds	\$ 56,949	\$ 565,243	\$ (3,962)	\$ (562,559)	\$ 55,671

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Schedule 4

**SCHEDULE OF ELECTRIC PLANT  
Year Ended December 31, 2005**

	Balance December 31, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2005</u>
<b>Production Plant:</b>				
Land	\$ 66,520	\$ -	\$ -	\$ 66,520
Structures and improvements	222,479	31,274	-	253,753
Fuel holders, producers and accessories	11,169	-	-	11,169
Generators	853,291	124,552	(1,346)	976,497
Accessory electric equipment	88,287	212,979	(937)	300,329
	<u>1,241,746</u>	<u>368,805</u>	<u>(2,283)</u>	<u>1,608,268</u>
<b>Transmission Plant:</b>				
Station equipment	71,428	-	-	71,428
Poles and fixtures	22,532	-	-	22,532
Overhead conductors and devices	8,064	-	-	8,064
	<u>102,024</u>	<u>-</u>	<u>-</u>	<u>102,024</u>
<b>Distribution Plant:</b>				
Poles, towers and fixtures	172,439	-	(26,645)	145,794
Overhead conductors and devices	326,840	-	(12,995)	313,845
Underground conduit	83,425	-	-	83,425
Underground conductors and devices	131,014	27,002	(3,280)	154,736
Line transformers	180,595	3,172	(17,311)	166,456
Services	173,388	8,312	(16,086)	165,614
Meters	113,055	2,947	-	116,002
Street lighting and signal system	53,313	-	(12,903)	40,410
	<u>1,234,069</u>	<u>41,433</u>	<u>(89,220)</u>	<u>1,186,282</u>
<b>General Plant:</b>				
Office furniture and equipment	28,519	-	(2,383)	26,136
Transportation equipment	110,349	-	-	110,349
Tools, shop and garage equipment	23,965	-	(1,261)	22,704
Laboratory equipment	3,252	-	(2,528)	724
Power operated equipment	18,317	-	-	18,317
Communication equipment	6,091	242	(1,329)	5,004
	<u>190,493</u>	<u>242</u>	<u>(7,501)</u>	<u>183,234</u>
	<u>\$ 2,768,332</u>	<u>\$ 410,480</u>	<u>\$ (99,004)</u>	<u>\$ 3,079,808</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Schedule 5

**SCHEDULE OF WATER PLANT  
Year Ended December 31, 2005**

	<u>Balance</u> December 31, 2004	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> December 31, 2005
<b>Source of Supply and Pumping Plant:</b>				
Land and land rights	\$ 142,438	\$ -	\$ -	\$ 142,438
Structures and improvements	3,986,457	-	-	3,986,457
Collection and impounding reservoir	76,493	-	-	76,493
Lakes, rivers and other intakes	58,949	15,829	-	74,778
Supply mains	303,128	-	-	303,128
Electronic pumping equipment	354,606	-	-	354,606
Pumping and treatment equipment	660,403	6,596	-	666,999
	<u>5,582,474</u>	<u>22,425</u>	<u>-</u>	<u>5,604,899</u>
<b>Distribution Plant:</b>				
Distribution system and standpipes	559,408	-	-	559,408
Transmission and distribution mains	710,169	765	-	710,934
Meters and customer premise equipment	118,340	6,023	-	124,363
Hydrants	39,133	-	-	39,133
	<u>1,427,050</u>	<u>6,788</u>	<u>-</u>	<u>1,433,838</u>
<b>General Plant:</b>				
Furniture and office equipment	44,475	-	-	44,475
Transportation equipment	48,690	-	-	48,690
Work equipment	6,690	-	-	6,690
Laboratory equipment	23,907	-	-	23,907
Power operated equipment	78,805	-	-	78,805
Communication equipment	2,540	733	-	3,273
	<u>205,107</u>	<u>733</u>	<u>-</u>	<u>205,840</u>
	<u>\$ 7,214,631</u>	<u>\$ 29,946</u>	<u>\$ -</u>	<u>\$ 7,244,577</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

Schedule 6

**SCHEDULE OF GAS PLANT  
Year Ended December 31, 2005**

	Balance December 31, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2005</u>
<b>Transmission and Distribution Plant:</b>				
Transmission mains	\$ 117,087	\$ 1,629	\$ -	\$ 118,716
Structures and improvements	14,105	31,273	-	45,378
Distribution mains	309,404	7,824	-	317,228
Measure and regulating station equipment	37,283	42	-	37,325
Meters	<u>100,350</u>	<u>558</u>	-	<u>100,908</u>
	<u>578,229</u>	<u>41,326</u>	-	<u>619,555</u>
<b>General Plant:</b>				
Work equipment	89,365	244	-	89,609
Furniture and office equipment	26,831	-	-	26,831
Transportation equipment	<u>13,519</u>	<u>-</u>	-	<u>13,519</u>
	<u>129,715</u>	<u>244</u>	-	<u>129,959</u>
	<u>\$ 707,944</u>	<u>\$ 41,570</u>	<u>\$ -</u>	<u>\$ 749,514</u>

See Accompanying Independent Auditors' Report



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

To the Board of Trustees  
Corning Municipal Utilities  
Corning, Iowa

We have audited the financial statements of Corning Municipal Utilities as of and for the year ended December 31, 2005, and have issued our report thereon dated January 20, 2006. 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 Corning Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion 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 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 Part II of the accompanying Schedule of Findings.

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 general purpose 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, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corning Municipal Utilities' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 Utilities' operations for the year ended December 31, 2005, 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.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Corning Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Kieckhefer Associates LLP*

West Des Moines, Iowa  
January 20, 2006

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2005**

**Part I: Summary of Independent Auditors' Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2005**

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-05      Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2005**

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-05      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, 2005.
- III-B-05      Certified Budget - Disbursements during the year ended December 31, 2005, were within the amounts budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- III-C-05      Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 29, 1979, were noted.
- III-D-05      Travel Expense - No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials and/or employees were noted.
- III-E-05      Basis of Accounting - Corning Municipal Utilities uses a uniform accounting system and follows the accrual basis of accounting.
- III-F-05      Fixed Asset Record - A detailed record of fixed assets is currently being maintained.
- III-G-05      Bond Coverage - Surety bond coverage of the Utilities' 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.
- III-H-05      Trustee Minutes - No transactions were found that we believe should have been approved in the minutes but were not. The minutes records were examined and appeared to give a condensed, accurate account of business transacted by the Trustees and were published in accordance with the requirements of the Code of Iowa.
- III-I-05      Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**Schedule of Findings  
December 31, 2005**

III-J-05      Business Transactions - The business transactions, which came to our attention during the course of our audit between the Utilities and the Utilities' officials and/or employees, are detailed as follows:

<u>Name, Title, and Business &amp; Connection</u>	<u>Description</u>	<u>Total Transactions</u>
Scott Akin (Trustee), Owner, Akin Building Center	Materials and supplies	\$ <u>47,870</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Scott Akin (Trustee) do not appear to represent conflicts of interest since his store is the only store in town that carries certain supplies.

We recommend that the Utilities should consult legal counsel regarding this possible conflict of interest. Management stated that they would consult legal counsel regarding this matter. This response is deemed acceptable.

III-K-05      Revenue and Electric Notes - The Utility has set aside funds as required by the water and electric revenue bond resolutions.

III-L-05      RFP Process - The audit was not awarded through the RFP process as required by the Code of Iowa for contracts entered into after May 31, 1989.

**CORNING MUNICIPAL UTILITIES  
CORNING, IOWA**

**STAFF**

This audit was performed by:

Steven P. Harms, CPA, Partner  
Jessica R. Richter, CPA, Supervising Senior Accountant  
Julie K. Trichel, Accountant