

**DURANT MUNICIPAL ELECTRIC PLANT**

**Durant, Iowa**

**Financial Statements and  
Supplemental Data**

**December 31, 2005**

**DURANT MUNICIPAL ELECTRIC PLANT  
Durant, Iowa**

C O N T E N T S

**OFFICIALS**

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**DURANT MUNICIPAL ELECTRIC PLANT**  
**Durant, Iowa**  
**Officials**

**BOARD OF TRUSTEES**

<b>NAME</b>	<b>TITLE</b>	<b>TERM EXPIRES</b>
Harlen Bland	Chairman	December 31, 2007
Brad Mumm	Board Member	December 31, 2009
Bill Paulsen	Board Member	December 31, 2005

**OFFICIALS**

<b>NAME</b>	<b>TITLE</b>
Joel Meincke	Superintendent
Tamara R. Schmidt	Office Manager

Julie J. Dura, CPA  
Randy L. Linn, CPA  
David A. Schebler, CPA  
Randall B. Sovey, CPA

# **HUCKFELDT & SMITH**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL LIABILITY COMPANY

## **INDEPENDENT AUDITOR'S REPORT**

Durant Municipal Electric Plant  
Durant, Iowa

We have audited the accompanying statement of net assets of the Durant Municipal Electric Plant as of December 31, 2005, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Durant Municipal Electric Plant's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides 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 Durant Municipal Electric Plant, as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2006, on our consideration of Durant Municipal Electric Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Durant Municipal Electric Plant's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis 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. We did not audit the information and express no opinion thereon.



HUCKFELDT & SMITH, P.L.C.

May 4, 2006

**DURANT MUNICIPAL ELECTRIC PLANT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Durant Municipal Electric Plant provides this Management's Discussion and Analysis of its financial statements. This 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 Utility's financial statements, which follow.

This Discussion and Analysis is intended to serve as an introduction to the basic financial statements.

### FINANCIAL HIGHLIGHTS

- The Utility's operating revenues increased 22.9%, or \$263,494 from 2004 to 2005.
- The Utility's non-payroll generating costs were 5.3%, or \$32,247, higher in 2005 than in 2004.
- The Utility's payroll costs were 5.9%, or \$17,396 higher in 2005 than in 2004.
- The Utility's net assets increased 18.0%, or \$278,584 from 2004 to 2005.
- The Utility's operating expenses increased 14.9%, or \$21,343 from 2004 to 2005.

### USING THIS ANNUAL REPORT

The Durant Municipal Electric Plant is an Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. 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 Utility's financial activities

The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for enterprise funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

## DURANT MUNICIPAL ELECTRIC PLANT

### Management's Discussion and Analysis

December 31, 2005

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

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

### FINANCIAL ANALYSIS OF THE UTILITY

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets at December 31, 2005 totaled \$1,822,793. This compares to \$1,544,209 at December 31, 2004. A summary of the Utility's net assets is presented below.

	Net Assets	
	December 31,	
	2005	2004
Current Assets	\$ 686,226	\$ 422,010
Restricted Cash and Investments	260,286	257,572
Capital Assets at cost, less accumulated depreciation	1,581,164	1,642,510
Intangible Assets	4,922	6,580
Total Assets	<u>2,532,598</u>	<u>2,328,672</u>
Current Liabilities	199,805	189,463
Noncurrent Liabilities	510,000	595,000
Total Liabilities	<u>709,805</u>	<u>784,463</u>
Net Assets:		
Invested in capital assets, net of related debt	986,164	787,510
Unrestricted	836,629	756,699
Total Net Assets	<u>\$ 1,822,793</u>	<u>\$ 1,544,209</u>

The net assets invested in capital assets e.g., land, buildings and equipment, less the related debt portion of net assets which are resources allocated to capital assets, is 54% of net assets. The remaining net assets, 46%, are the unrestricted net assets that can be used to meet the Utility's obligations as they come due.

**DURANT MUNICIPAL ELECTRIC PLANT**  
Management's Discussion and Analysis  
December 31, 2005

Changes in Net Assets		
	Year Ended December 31	
	2005	2004
Operating Income	\$ 1,412,814	\$ 1,149,320
Operating Expenses	(1,054,394)	(998,971)
Operating Profit	358,420	150,349
Other Income	42,162	35,637
Other Expenses	(121,998)	(128,491)
Net Change in Assets	\$ 278,584	\$ 57,495

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes electric generation & distribution fees reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes lease payments and the purchase of capital assets. Cash used by investing activities includes purchase of certificates of deposits and interest income.

**CAPITAL ASSETS**

The Utility's capital assets include land, buildings, vehicles, machinery and equipment, tools and distribution system. Capital assets totaled \$1,581,164 (net of accumulated depreciation) at December 31, 2005. Additional information of the Electric Utility's assets can be found in Schedule A-3 in this report.

**DURANT MUNICIPAL ELECTRIC PLANT**  
Management's Discussion and Analysis  
December 31, 2005

**LONG TERM DEBT**

At December 31, 2005, the Utility had \$595,000 in debt outstanding, a decrease of \$80,000 from 2004. The table below summarizes outstanding debt by type:

	December 31,	
	2005	2004
Bonds Payable - See Note 9	\$ 595,000	\$ 675,000

**ECONOMIC FACTORS**

The Durant Municipal Electric Plant continued to improve its financial position during the current year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Facilities require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and will maintain a close watch over resources to maintain the Utility's ability to react to unknown issues.

**CONTACTING THE UTILITY'S MANAGEMENT**

This financial report is designed to provide our constituents with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional information, contact Durant Municipal Electric Plant, 601 4th Street, Durant, Iowa 52747

**DURANT MUNICIPAL ELECTRIC PLANT**  
**BASIC FINANCIAL STATEMENTS**

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa  
Statement of Net Assets  
December 31, 2005

EXHIBIT A

	<u>2005</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash on Hand	\$ 200
Cash in Bank - General Fund	305,037
Money Market	83,044
Customer Accounts Receivable	167,581
Accrued Interest Receivable	1,108
Material & Supplies Inventory - Note 1	117,324
Fuel Inventory - Note 1	11,932
Total	<u>686,226</u>
<b>INVESTMENTS AND FUND ACCOUNTS:</b>	
Certificates of Deposit-Schedule A-2 Note 5	155,000
Meter Deposit Fund - Investments - Note 5	5,350
Meter Deposit Fund - Checking	15,183
Money Market-Bond Sinking Fund	84,753
Total	<u>260,286</u>
<b>ELECTRIC PLANT: - Note 1</b>	
Intangible Plant	175,621
Production Plant	1,526,431
Transmission Plant	151,967
Distribution Plant	561,406
General Plant	261,269
Radiator	135,829
Substation	897,128
Total	<u>3,709,651</u>
Less: Accumulated Provision for Depreciation	<u>(2,128,487)</u>
Total - Schedule A-3	<u>1,581,164</u>
<b>OTHER ASSETS:</b>	
Unamortized Bonding Costs	1,761
Unamortized Bond Discount	3,161
Total	<u>4,922</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,532,598</u>

See Notes to Financial Statements.

## EXHIBIT B

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Statement of Revenue, Expenses and Changes in Net Assets with Comparison to Budget

For the Year Ended December 31, 2005

	Actual 2005	Budget 2005
<b>OPERATING INCOME:</b>		
Residential Sales	\$ 746,481	\$ 603,700
Commercial and Industrial	148,047	129,000
Power	434,955	392,700
Municipal	81,398	78,400
Security Lite	1,933	2,200
Total	<u>1,412,814</u>	<u>1,206,000</u>
<b>OPERATING EXPENSES:</b>		
Production Expense	724,047	687,600
Distribution Expense	165,719	167,600
Customer Accounts Expense	85,407	87,100
Administrative Expense	79,221	71,820
Total	<u>1,054,394</u>	<u>1,014,120</u>
<b>OPERATING PROFIT</b>	<u>358,420</u>	<u>191,880</u>
<b>OTHER INCOME:</b>		
Interest from Investments	5,681	14,400
Penalties	1,210	700
Patronage Dividends	13,755	11,500
Miscellaneous	17,803	56,823
Pole Rental	3,713	4,000
Total	<u>42,162</u>	<u>87,423</u>
<b>OTHER DEDUCTIONS:</b>		
Depreciation	82,459	125,800
Interest Expense	38,198	117,203
Bad Debts	(105)	200
Miscellaneous	1,446	36,100
Total	<u>121,998</u>	<u>279,303</u>
<b>CHANGE IN NET ASSETS</b>	278,584	<u>0</u>
<b>NET ASSETS DECEMBER 31, 2004</b>	<u>1,544,209</u>	
<b>NET ASSETS DECEMBER 31, 2005</b>	<u>\$ 1,822,793</u>	

See Notes to Financial Statements.

## EXHIBIT C

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Statement of Cash Flows

For the Year Ended December 31, 2005

	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Customers for Electrical Service	\$ 1,436,337
Cash Received for Other Charges and Misc Income	42,101
Cash Paid to Suppliers for Generation and Distribution Services	(744,765)
Cash Paid to Employees for Services	(333,346)
Cash Paid to Suppliers for Administrative and General Services	(41,744)
Cash Paid for Sales Taxes	(47,330)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>311,253</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of Capital Assets	(21,113)
Interest Disbursed on Bonds	(37,203)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(58,316)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest Collected	3,931
Principal Payment on Bonds	(80,000)
Sale of Investments Net of (Purchases)	(3,218)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(79,287)</u>
<b>NET INCREASE IN CASH</b>	173,650
<b>CASH &amp; EQUIVALENTS BALANCE AT BEGINNING OF YEAR</b>	<u>229,814</u>
<b>CASH &amp; EQUIVALENTS BALANCE AT END OF YEAR</b>	<u>\$ 403,464</u>

**Reconciliation of Net Change in Net Assets to Cash Provided by Operating Activities**

Net Operating Profit	\$ 358,420
<b>Adjustments to Reconcile Net Change in Net Assets to Net Cash Provided by Operating Activities</b>	
Patronage Dividends	13,755
Other Income	22,726
Other Deductions	(1,446)
(Increase) Decrease in Non-Cash Current Assets	(87,544)
Increase (Decrease) in Current Liabilities	5,342
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 311,253</u>

See Notes to Financial Statements.

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Measurement Focus and Basis of Accounting:

The financial statements 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.

The Utility distinguishes 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 the Utility's principal ongoing business. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with standards set forth by The Governmental Accounting Standards Board. Revenues are recognized when they are earned and expenses are recognized or recorded when they are incurred.

#### Reporting Entity:

For financial reporting purposes, Durant Municipal Electric Plant has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Municipal Electric Plant 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 are such that exclusion would cause the 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 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 Durant Municipal Electric Plant. The Durant Municipal Electric Plant has no component units which meet the Governmental Accounting Standards Board criteria.

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

### Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

#### Fund Accounting:

The accounts of Durant Municipal Electric Plant are organized as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### Measurement Focus:

Enterprise funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on the balance sheet. The operating statement presents increases (revenue) and decreases (expenses) in net assets.

In reporting the financial activity of its enterprise fund, the Durant Municipal Electric Plant 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.

#### Budgets and Budgetary Accounting:

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

#### Investments:

Investments consist of CD's and are valued at cost plus any interest earned that is added to the security. Investments are stated at cost.

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

### Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

#### Inventories:

Inventories are valued at the lower of cost or market using the first-in, first-out method.

#### Fixed Assets:

Electric Plant fixed assets were established from a survey report by Fulton & Cramer, Consulting Engineers, as of September 30, 1968. The basis of valuation was "Reproduction Cost Net of Depreciation". A copy of the Consulting Engineers' report contained detailed explanations of valuation and depreciation procedures, and is on file in the office of the Electric Plant. Fixed asset additions after September 30, 1968, are recorded at historical cost.

#### Depreciation:

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized.

### Note 2 – **ORGANIZATION:**

Durant Municipal Electric Plant is organized as a municipal utility. It is operated under the control of a Board of Trustees, who are appointed by the Mayor and approved by the City Council. The Board has three members who serve six-year terms on a two year staggered basis.

### Note 3 – **CASH FLOWS DISCLOSURE:**

Included in Change in Net Assets for 2005 is \$5,011 of interest received.

The Utility disbursed \$37,203 in interest during 2005.

Cash and Cash Equivalents consist of Cash on Hand; Cash in Bank - General Fund, Money Market, and Meter Deposit Fund-Checking.

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

### Note 4 - CONCENTRATION OF CREDIT RISK:

Durant Municipal Electric Plant provides commercial and residential electric services to customers in Durant, Iowa. Receivables are from customers with locations in Durant, Iowa and collection of these receivables is dependent on the performance of the local economy.

### Note 5 - BANK ACCOUNTS AND INVESTMENTS:

The Durant Municipal Electric Plant's bank accounts and investments at December 31, 2005 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 Municipal Electric Plant 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 and the Treasurer of the State of Iowa; 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 and improvement certificates of a drainage district.

The Durant Municipal Electric Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3.

The Municipal Electric Plant's investments at December 31, 2005 consists of Certificates of Deposit at Liberty Trust and Savings Bank, and one Money Market account at Liberty Trust and Savings Bank as follows:

	Carrying <u>Value</u>
Meter Deposit Fund	\$ 5,350
Operating Fund	<u>155,000</u>
Total CD's	160,350
Money Market Accounts	<u>84,753</u>
Total	<u>\$ 245,103</u>

Book value and market value are the same.

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

### Note 6 - PENSION AND RETIREMENT BENEFITS:

The Municipal Electric Plant is a participating employer in the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit retirement system 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 Durant Municipal Electric Plant is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Durant Municipal Electric Plant's contribution to IPERS for the year ended December 31, 2005 was \$13,165, equal to the required contributions for the year.

### Note 7 -RISK MANAGEMENT:

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

### Note 8 - COMPENSATED ABSENCES:

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are recognized as liabilities and expensed as accrued. The approximate liability for earned compensated absences payable to employees at December 31, 2005, is as follows:

<u>TYPE OF BENEFIT</u>	<u>AMOUNT</u>
Vacation	\$ 5,916
Sick leave	<u>11,586</u>
TOTAL	<u>\$ 17,503</u>

This liability has been computed based on rates of pay in effect at December 31, 2005.

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

### Note 9 - LONG TERM DEBT:

On October 11, 1996, the Utility issued \$1,200,000 in bonds dated October 1, 1996, to perform repairs and upgrades to existing facilities. The bonds were issued at 98.5% of par and have an average coupon rate of 5.4578% and are due ratably over the next 15 years.

Annual debt service requirements for electric revenue notes are as follows:

<u>Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
12-31-06	85,000	32,963	117,963
12-31-07	90,000	28,415	118,415
12-31-08	95,000	23,555	118,555
12-31-09	100,000	18,378	118,378
12-31-10	110,000	12,828	122,828
12-31-11	<u>115,000</u>	<u>6,613</u>	<u>121,613</u>
TOTAL	<u>\$ 595,000</u>	<u>\$ 162,752</u>	<u>\$ 757,752</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate revenue note sinking account for the purpose of making the note principal and interest payments when due.

# DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

Notes to Financial Statements

## Note 10 – CAPITAL ASSETS:

A summary of capital assets at December 31, 2005 is as follows:

	<u>Beg. Of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of Year</u>
Capital Assets Not Being Depreciated	\$ 46,040	0	0	\$ 46,040
Capital Assets Being Depreciated	<u>3,659,935</u>	<u>21,113</u>	<u>(17,437)</u>	<u>3,663,611</u>
Total Capital Assets	<u>3,705,975</u>	<u>21,113</u>	<u>(17,437)</u>	<u>3,709,651</u>
Less Accumulated Depreciation	<u>(2,063,465)</u>	<u>(82,459)</u>	<u>17,437</u>	<u>(2,128,487)</u>
Total Capital Assets, Net	<u>\$ 1,642,510</u>	<u>(61,346)</u>	<u>0</u>	<u>\$ 1,581,164</u>

**DURANT MUNICIPAL ELECTRIC PLANT**

**Supplemental Data  
December 31, 2005**

**DURANT MUNICIPAL ELECTRIC PLANT**  
 Durant, Iowa  
 Statement of Indebtedness  
 Year Ended December 31, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due & Unpaid
Revenue Notes: Electric	10/01/96	5.2-5.75%	\$ 1,200,000	\$ 675,000	0	\$ 80,000	\$ 595,000	\$ 37,203	\$ 8,218

**DURANT MUNICIPAL ELECTRIC PLANT**  
Durant, Iowa  
Schedule of Investments  
December 31, 2005

**LIBERTY TRUST AND SAVINGS BANK:**

<u>Certificates of Deposit</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
# 40340	1/20/06	2.04	\$ 30,000
# 91661	9/30/05	3.75	100,000
# 33803	12/13/06	3.25	<u>25,000</u>
			<u>\$ 155,000</u>

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa  
Detail of Electric Plant Fixed Assets  
December 31, 2005

	Cost	Accumulated Depreciation 12/31/04	Depreciation Expense 2005	Disposition 2005	Accumulated Depreciation 12/31/05
<b>GENERAL PLANT:</b>					
Office Furniture and Fixtures	\$ 62,234	\$ 61,045	\$ 0		\$ 61,045
Transportation Equipment	153,170	153,170	0		153,170
Stores Equipment	3,066	3,066	0		3,066
Shop Equipment	21,645	21,401	122		21,523
Laboratory Equipment	3,875	3,875	0		3,875
Tools & Work Equipment	17,279	17,279	0		17,279
Total	<u>261,269</u>	<u>260,436</u>	<u>122</u>	<u>0</u>	<u>260,558</u>
<b>RADIATOR:</b>					
Radiator	117,500	91,705	3,525		95,230
Studies	18,329	14,265	549		14,814
Total	<u>135,829</u>	<u>105,970</u>	<u>4,074</u>	<u>0</u>	<u>110,044</u>
<b>SUBSTATION:</b>					
Land & Land Clearing	8,990	0	0		0
Engineering & Legal	28,822	28,822	0		28,822
Aerial Lines	5,111	5,111	0		5,111
Outdoor Substation	727,541	325,269	37,895		363,164
Reclosure	14,004	14,004	0		14,004
Transformer	103,016	94,045	644		95,289
Feasibility Studies	9,644	9,644	0		9,644
Total	<u>897,128</u>	<u>477,495</u>	<u>38,539</u>	<u>0</u>	<u>516,034</u>
<b>TOTALS</b>	<u>\$ 3,709,651</u>	<u>\$ 2,063,465</u>	<u>\$ 82,459</u>	<u>\$ 17,437</u>	<u>\$ 2,128,487</u>

## DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa  
Detail of Electric Plant Fixed Assets

	Cost	Accumulated Depreciation 12/31/04	Depreciation Expense 2005	Disposition 2005	Accumulated Depreciation 12/31/05
<b>INTANGIBLE PLANT:</b>					
Organization Expense	\$ 5,000	0	0	\$	0
Construction Cost	170,621	170,621	0		170,621
Total	175,621	170,621	0	0	170,621
<b>PRODUCTION PLANT:</b>					
Land and Land Rights	32,050	0	0		0
Power House & Bldg Improvements	225,012	166,614	5,936		172,550
Fuel & Lube Oil System	19,603	19,603	0		19,603
Accessory Electric Equipment	61,500	61,500	0		61,500
Miscellaneous Plant Equipment	14,378	15,766	0	1,388	14,378
Generators & Plant Equipment	1,173,888	212,321	25,386		237,707
Total	1,526,431	475,804	31,322	1,388	505,738
<b>TRANSMISSION PLANT:</b>					
Clearing Land and Right of Way	500	500	0		500
Station Equipment (Transformer)	146,021	146,021	0		146,021
Poles and Fixtures	2,349	2,349	0		2,349
Overhead Conductors and Devices	3,097	3,097	0		3,097
Total	151,967	151,967	0	0	151,967
<b>DISTRIBUTION PLANT:</b>					
Station Equipment (Capacitors and Battery)	81,431	72,770	1,609	3,079	71,300
Poles, Towers and Fixtures	126,131	50,077	2,998	2,452	50,623
Overhead Conductors and Devices	106,802	60,106	2,376	3,068	59,414
Underground Conduit and Conductors	75,774	76,324	0	550	75,774
Line Transformers	89,433	86,133	502	3,105	83,530
Services	19,204	18,978	275	1,106	18,147
Meters	37,506	35,422	546	1,835	34,133
Street Lighting and Signals	12,721	12,982	96	854	12,224
Furnace	12,404	8,380	0	0	8,380
Total	\$ 561,406	\$ 421,172	\$ 8,402	\$ 16,049	\$ 413,525

SCHEDULE A-4

**DURANT MUNICIPAL ELECTRIC PLANT**  
Durant, Iowa  
Schedule of Cash Balances  
December 31, 2005

Cash on Hand	\$	200
Cash in Bank - General Fund		305,037
Money Market		83,044
Meter Deposit - Checking		<u>15,183</u>
Total	\$	<u><u>403,464</u></u>

**DURANT MUNICIPAL ELECTRIC PLANT**

Balance Composition  
December 31, 2005

<u>Depository</u>	<u>Demand Deposits</u>	<u>Time Deposits &amp; Investments</u>	<u>Total</u>	<u>Maximum Authorized Deposit</u>
<b><u>Liberty Trust &amp; Savings</u></b>				
<b><u>Durant, Iowa:</u></b>				
General	\$ 388,081	\$ 155,000	\$ 543,081	
Capital Improvements	84,753	0	84,753	
Customer Deposits	<u>15,183</u>	<u>5,350</u>	<u>20,533</u>	
 Total	 <u>\$ 488,017</u>	 <u>\$ 160,350</u>	 <u>\$ 648,367</u>	 <u>\$ 2,000,000</u>

SCHEDULE A-6

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa  
Schedule of Bond Maturities  
December 31, 2005

<u>Year Ended</u> <u>December 31</u>	<u>Interest Rate</u>	<u>Issued 10-01-96</u> <u>Amount</u>
2006	5.35	85,000
2007	5.4	90,000
2008	5.45	95,000
2009	5.55	100,000
2010	5.65	110,000
2011	5.75	115,000
<b>TOTAL</b>		<u>\$ 595,000</u>

SCHEDULE B-1

**DURANT MUNICIPAL ELECTRIC PLANT**  
 Durant, Iowa  
 Detail of Operating Expenses and Comparison to Budget  
 For the Year Ended December 31, 2005

	2005	Budget
<b>PRODUCTION EXPENSES:</b>		
Labor	\$ 86,992	\$ 88,700
Fuel	1,067	19,900
Maintenance	27,466	19,600
Purchased Power	595,075	546,200
Insurance	11,215	11,300
Safety Expenses	2,232	1,900
Total	724,047	687,600
<b>DISTRIBUTION EXPENSES:</b>		
Supervision and Labor	126,166	128,400
Stock	14,568	15,100
Maintenance	5,099	5,800
Truck and Transportation	8,671	7,000
Insurance	11,215	11,300
Total	165,719	167,600
<b>CUSTOMER ACCOUNTS EXPENSES:</b>		
Meter Reading Labor	14,245	16,400
Office Salaries	44,290	47,400
Miscellaneous Supplies	10,973	10,300
Energy Efficient	9,623	7,300
Insurance	5,448	5,700
Community Service	828	0
Total	85,407	87,100
<b>ADMINISTRATIVE EXPENSES:</b>		
Salaries and Wages	40,626	43,600
Trustee Fees	720	720
Professional Services	13,041	9,900
Dues, Subscriptions and Meetings	5,271	5,700
Telephone	3,979	3,200
Engineering	11,629	1,600
Advertising	579	1,100
Miscellaneous	3,376	6,000
Total	79,221	71,820
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,054,394</b>	<b>\$ 1,014,120</b>

**Independent Auditor's Report on  
Compliance and on Internal Control over Financial Reporting**

Julie J. Dura, CPA  
Randy L. Linn, CPA  
David A. Schebler, CPA  
Randall B. Sovey, CPA

# **HUCKFELDT & SMITH**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL LIABILITY COMPANY

## Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Trustees  
Durant Municipal Electric Plant

We have audited the financial statements of Durant Municipal Electric Plant, Durant, Iowa, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 4, 2006. We conducted our audit in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

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

Comments involving statutory and other legal matters about the Organization's 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 Durant Municipal Electric Plant. 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. There were no prior year statutory comments.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durant Municipal Electric Plant'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to

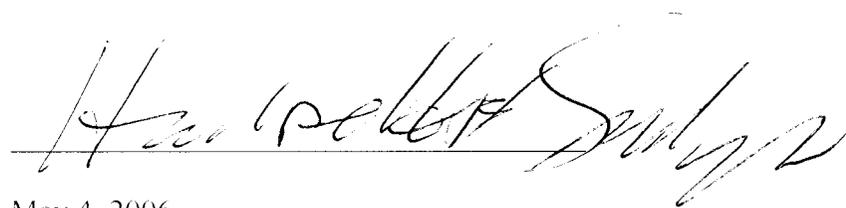
significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Durant and other parties to whom the Durant Municipal Electric Plant may report. 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 the Durant Municipal Electric Plant 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.

HUCKFELDT & SMITH, P.L.C.

A handwritten signature in cursive script, appearing to read "Huckfeldt & Smith", is written over a horizontal line.

May 4, 2006

**Durant Municipal Electric Plant  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2005**

**Part I: Summary of the Independent Auditor's 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 a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

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

**INSTANCES ON NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITION:**

- A 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. We noted that the cash receipts listing, bank deposits, the posting of the cash receipts to the cash receipts journal, accounts payable, payroll and disbursements processing and postings are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Durant Municipal Electric Plant should continually review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Segregation of duties involving cash is partially unattainable due to the economic conditions under which the Municipal Electric Plant operates. However, we will continue to investigate available alternatives and implement the ones which are feasible for the Municipal Electric Plant. This is an area of ongoing concern for management and is continually monitored.

Conclusion – Response accepted.

**Durant Municipal Electric Plant  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2005**

**Part III: Other Findings Related to Statutory Requirements and Other Matters:**

1. Official Depository Bank – The Municipal Electric Plant’s official depository bank and amount is:

Liberty Trust & Savings, Durant, Iowa      \$2,000,000

A resolution naming this bank as official depository bank is on file with the State Treasurer. The maximum amount stated in the resolution was not exceeded during the year ended December 31, 2005.

2. Certified Budget – For the year ended December 31, 2005 some of the line item expenditures exceeded budgeted amounts. However, total expenditures did not exceed the budgeted figure.
3. Entertainment Expense – We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
4. Travel Expense – No expenditures of Municipal Electric Plant money for travel expenses of spouses of Municipal Electric Plant officials and/or employees were noted. No travel advances to officials or employees were noted.
5. Related Party Business Transactions – No expenditures or money to any was noted.
6. Bond Coverage – Surety bond coverage of Municipal Electric Plant officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes – We noted no transactions requiring Board approval which had not been approved by the Board.
8. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.