

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

**FINANCIAL REPORT**

**December 31, 2005**

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Story City Municipal Electric Utility  
OFFICIALS  
December 31, 2005

**BOARD OF TRUSTEES**

**Term expires**

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

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

**ADMINISTRATOR**

Jeff Ishmael

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying balance sheets of Story City Municipal Electric Utility, a component unit of the City of Story City, Iowa, as of December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Story City Municipal Electric Utility as of December 31, 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 our report dated January 26, 2006 on our consideration of Story City Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
January 26, 2006

## **Story City Municipal Electric Utility MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Story City Municipal Electric Utility, we offer readers of the financial statements this narrative overview and analysis of the Utility's financial performance during the fiscal years ended December 31, 2005 and 2004. Please read it in conjunction with the Utility's financial statements, which follow this section.

### **Overview of the Financial Statements**

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

### **Required Financial Statements**

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

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

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

### **Financial Highlights**

- Total assets increased by \$67,686 to \$10,798,273
- Total noncurrent assets whose use is limited increased by \$111,355 to \$2,382,977
- Total property and equipment decreased by \$22,812 to \$6,656,430
- Total equity increased by \$534,372 to \$7,548,637
- Total long-term debt decreased by \$360,000
- Total revenues increased by \$481,536, or 13%, primarily due to increased electricity revenue resulting from a corresponding increase in the cost of purchased power
- Expenses increased by \$438,733, or 14% to \$3,552,576, primarily due to the increase in cost of purchased power

### **Financial Analysis of the Utility**

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

## **Balance Sheets**

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

**Table 1**  
**Condensed Balance Sheets**

	<b>December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current assets	\$ 1,735,466	\$ 1,744,623	\$ 1,550,641
Noncurrent assets whose use is limited	2,382,977	2,271,622	2,120,535
Property and equipment	6,656,430	6,679,242	6,772,372
Other asset	<u>23,400</u>	<u>35,100</u>	<u>46,800</u>
Total assets	<u>\$10,798,273</u>	<u>\$10,730,587</u>	<u>\$10,490,348</u>
Current liabilities	\$ 729,636	\$ 776,322	\$ 596,330
Long-term debt, less current maturities	<u>2,520,000</u>	<u>2,940,000</u>	<u>3,300,000</u>
Total liabilities	<u>\$ 3,249,636</u>	<u>\$ 3,716,322</u>	<u>\$ 3,896,330</u>
Invested in capital assets, net of related debt	\$ 3,716,430	\$ 3,379,242	\$ 3,122,372
Restricted	873,937	908,492	952,865
Unrestricted	<u>2,958,270</u>	<u>2,726,531</u>	<u>2,518,781</u>
Total equity	<u>\$ 7,548,637</u>	<u>\$ 7,014,265</u>	<u>\$ 6,594,018</u>

As depicted in Table 1, total assets increased in fiscal year 2005 to \$10,798,273. The change in total assets results primarily from proceeds from continuing operating income.

## **Revenues, Expenses, and Changes in Equity**

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

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

	<b>Year ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Electricity revenue	\$4,183,487	\$3,703,527	\$3,109,612
Other revenue	<u>17,521</u>	<u>15,945</u>	<u>13,652</u>
Total revenues	<u>4,201,008</u>	<u>3,719,472</u>	<u>3,123,264</u>
Salaries	352,371	325,990	326,750
Other expenses	2,761,309	2,355,031	1,721,531
Depreciation expense	<u>438,896</u>	<u>432,822</u>	<u>425,603</u>
Total expenses	<u>3,552,576</u>	<u>3,113,843</u>	<u>2,473,884</u>
Operating income	<u>648,432</u>	<u>605,629</u>	<u>649,380</u>
Interest income	101,478	44,921	37,948
Service donated to municipality	(30,804)	(31,354)	(32,675)
Interest expense	(173,034)	(187,249)	(200,341)
Amortization of financing costs	<u>(11,700)</u>	<u>(11,700)</u>	<u>(11,700)</u>
Total nonoperating gains (losses)	<u>(114,060)</u>	<u>(185,382)</u>	<u>(206,768)</u>
Change in equity	534,372	420,247	442,612
Total equity, beginning	<u>7,014,265</u>	<u>6,594,018</u>	<u>6,151,406</u>
Total equity, ending	<u>\$7,548,637</u>	<u>\$7,014,265</u>	<u>\$6,594,018</u>

## **Operating and Financial Performance**

The following summarizes the Utility's statements of revenues, expenses and changes in equity between December 31, 2005 and 2004.

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

**Volume:** During the year ended December 31, 2005, the number of Utility customers remained very comparable with 2004. However, electricity charges increased considerably to \$4,183,487 in 2005 as the Utility incurred increasing purchased power costs.

**Price Increase:** In early 2004, the Utility initiated an electricity rate study and implemented price increases to reflect the Utility's increased cost of electricity.

### **Other Revenue**

Other revenue increased to \$17,521 in 2005 compared to \$15,945 in 2004.

### **Expenses**

Approximately 10% of Utility's expenses are for salaries. Total salaries increased to \$352,371 in 2005 from \$325,990 in 2004.

Approximately 75% of Utility's expenses are for other expenses. Total other expenses increased by 17% to \$2,761,309 in 2005 from \$2,355,031 in 2004. The most significant increase related to the increased costs of purchased power.

Approximately 15% of Utility's expenses relate to depreciation expense. Depreciation expense increased to \$438,896 in 2005 from \$432,822 in 2004.

### **Nonoperating Gains (Losses)**

Nonoperating gains (losses) changed to \$(114,060) from \$(185,382) in 2004, primarily due to an increase in interest income.

### **Property and Equipment**

At the end of 2005, the Utility had \$6,656,430 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment.

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

**Table 3**  
**Property and Equipment**

	<b>December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Production	\$ 7,604,237	\$ 7,636,122	\$ 7,749,352
Transmission	1,923,313	1,770,763	1,770,763
Distribution	2,968,984	2,861,916	2,624,749
General	62,059	62,749	112,826
Subtotal	12,558,593	12,331,550	12,257,690
Less accumulated depreciation	(5,902,163)	(5,652,308)	(5,485,318)
Property and equipment	<u>\$ 6,656,430</u>	<u>\$ 6,679,242</u>	<u>\$ 6,772,372</u>

### **Debt Administration**

At year end, the Utility had \$2,940,000 in current and long-term debt related to Electric Revenue Notes, Series 2000. The overall principal balance decreased by \$360,000 in fiscal year 2005 as compared to 2004. More detailed information about the Utility's outstanding debt is presented in the Notes to Financial Statements. The Notes represent 90% of the Utility's total liabilities as of year end.

### **Contacting Story City Municipal Electric Utility's Management**

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

**Story City Municipal Electric Utility  
BALANCE SHEETS**

<b>ASSETS</b>	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 447,903	\$ 479,549
Certificate of deposit	199,000	200,000
Assets whose use is limited, required for current liabilities	490,960	436,870
Customer receivables, less allowance for uncollectible accounts 2005 and 2004 \$15,000	351,703	353,874
Other receivables	703	63,238
Inventories	233,027	199,152
Prepaid insurance	12,170	11,940
Total current assets	1,735,466	1,744,623
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	700,000	1,800,000
Certificates of deposit	1,300,000	-
Restricted for payment of long-term debt and interest		
Cash	547,837	490,092
Certificates of deposit	301,000	400,000
Interest receivable	25,100	18,400
	2,873,937	2,708,492
Less assets whose use is limited and that are required for current liabilities	490,960	436,870
Noncurrent assets whose use is limited	2,382,977	2,271,622
<b>PROPERTY AND EQUIPMENT</b>	12,558,593	12,331,550
Less accumulated depreciation	5,902,163	5,652,308
Total property and equipment	6,656,430	6,679,242
<b>OTHER ASSET</b>		
Unamortized financing costs	23,400	35,100
Totals	<b>\$10,798,273</b>	<b>\$10,730,587</b>

**December 31**

**LIABILITIES AND EQUITY**

**CURRENT LIABILITIES**

	<b>2005</b>	<b>2004</b>
Current maturities of long-term debt	\$ 420,000	\$ 360,000
Accounts payable	200,667	302,675
Accrued interest	70,960	76,870
Accrued expenses	38,009	36,777

Total current liabilities

	729,636	776,322
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**LONG-TERM DEBT**, less current maturities

	2,520,000	2,940,000
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**EQUITY**

Invested in capital assets, net of related debt	3,716,430	3,379,242
Restricted	873,937	908,492
Unrestricted	2,958,270	2,726,531
Total equity	7,548,637	7,014,265

Totals

	\$10,798,273	\$10,730,587
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**Story City Municipal Electric Utility**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY**

	<b>Year ended December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>REVENUES</b>		
Electricity revenue		
Residential	\$1,491,725	\$1,294,956
Commercial	559,960	470,328
Large power	<u>2,131,802</u>	<u>1,938,243</u>
	4,183,487	3,703,527
Other	17,521	15,945
Total revenues	<u>4,201,008</u>	<u>3,719,472</u>
<b>EXPENSES</b>		
Production	2,795,539	2,452,255
Distribution	447,181	340,136
Administration and general	<u>309,856</u>	<u>321,452</u>
Total expenses, including depreciation		
expense 2005 \$438,896; 2004 \$432,822	<u>3,552,576</u>	<u>3,113,843</u>
Operating income	<u>648,432</u>	<u>605,629</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Interest income	101,478	44,921
Service donated to municipality	(30,804)	(31,354)
Interest expense	(173,034)	(187,249)
Amortization of financing costs	<u>(11,700)</u>	<u>(11,700)</u>
Total nonoperating gains (losses)	<u>(114,060)</u>	<u>(185,382)</u>
Change in equity	534,372	420,247
<b>TOTAL EQUITY</b>		
Beginning	<u>7,014,265</u>	<u>6,594,018</u>
Ending	<u>\$7,548,637</u>	<u>\$7,014,265</u>

See Notes to Financial Statements.

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

	<b>Year ended December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$4,154,854	\$3,581,376
Cash paid to suppliers for goods and services	(2,734,191)	(2,374,751)
Cash paid to employees for services	(352,371)	(325,990)
Other operating revenue received	<u>17,521</u>	<u>15,945</u>
Net cash provided by operating activities	<u>1,085,813</u>	<u>896,580</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(515,548)	(240,228)
Interest paid on long-term debt	(178,944)	(192,709)
Principal payments on long-term debt	<u>(360,000)</u>	<u>(350,000)</u>
Net cash (used in) capital and related financing activities	<u>(1,054,492)</u>	<u>(782,937)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investments	1,200,000	400,000
Purchase of investments	(2,400,000)	(400,000)
Interest received	<u>94,778</u>	<u>34,921</u>
Net cash provided by (used in) investing activities	<u>(1,105,222)</u>	<u>34,921</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,073,901)	148,564
<b>CASH</b>		
Beginning	<u>2,769,641</u>	<u>2,621,077</u>
Ending	<u>\$1,695,740</u>	<u>\$2,769,641</u>

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

	<b>Year ended December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 648,432	\$ 605,629
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	438,896	432,822
Service donated to municipality	(30,804)	(31,354)
Changes in assets and liabilities		
(Increase) decrease in customer receivables	2,171	(90,797)
(Increase) decrease in other receivables	62,535	(63,238)
(Increase) in inventories	(33,875)	(32,150)
(Increase) in prepaid insurance	(230)	(320)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(2,544)	74,484
Increase in accrued expenses	<u>1,232</u>	<u>1,504</u>
Net cash provided by operating activities	<u>1,085,813</u>	<u>896,580</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 447,903	\$ 479,549
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	700,000	1,800,000
Restricted for payment of long-term debt and interest, cash	<u>547,837</u>	<u>490,092</u>
Statement of cash flows totals	<u>\$1,695,740</u>	<u>\$2,769,641</u>

See Notes to Financial Statements.

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

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

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

**Reporting Entity**

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

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

**Measurement Focus and Basis of Accounting**

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

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

**Accounting Standards**

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

**Investments and Interest Income**

The Utility's investments are nonnegotiable certificates of deposit reported at cost.

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

Interest income is reported as nonoperating gains.

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Inventories**

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

**Property and Equipment**

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

**Unamortized Financing Costs**

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

**Equity**

Equity is presented in the following three components:

**Invested in capital assets, net of related debt**

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

**Restricted equity**

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

**Unrestricted equity**

Unrestricted equity has no externally imposed restrictions on use.

**Revenues, Expenses and Changes in Equity**

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

**Credit Policy**

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

**Accounting Estimates and Assumptions**

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

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Reclassification**

Certain amounts in the prior year financial statements have been reclassified to conform with the December 31, 2005 presentation with no effect on change in equity.

**NOTE 2 CASH AND INVESTMENTS**

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

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

**NOTE 3 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended December 31, 2005:

	<b>Sinking Fund</b>	<b>Reserve Account</b>	<b>Total</b>
<b>BALANCE</b> , beginning of year	\$ 508,492	\$ 400,000	\$ 908,492
Transfers from (to) current assets, cash	603,389	(99,000)	504,389
Principal and interest payments	(538,944)	—	(538,944)
<b>BALANCE</b> , end of year	<u>\$ 572,937</u>	<u>\$ 301,000</u>	<u>\$ 873,937</u>

**NOTE 4 PROPERTY AND EQUIPMENT**

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

	<b>December 31, 2005</b>		<b>December 31, 2004</b>	
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Cost</b>	<b>Accumulated depreciation</b>
Production	\$ 7,604,237	\$3,630,151	\$ 7,636,122	\$3,417,830
Transmission	1,923,313	864,939	1,770,763	933,625
Distribution	2,968,984	1,348,727	2,861,916	1,247,841
General	62,059	58,346	62,749	53,012
Totals	<u>\$12,558,593</u>	<u>\$5,902,163</u>	<u>\$12,331,550</u>	<u>\$5,652,308</u>

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

**NOTE 4 PROPERTY AND EQUIPMENT (continued)**

A summary of changes in property and equipment for the year ended December 31, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 7,636,122	\$ —	\$ 31,885	\$ 7,604,237
Transmission	1,770,763	291,300	138,750	1,923,313
Distribution	2,861,916	124,784	17,716	2,968,984
General	62,749	—	690	62,059
Totals	<u>12,331,550</u>	<u>416,084</u>	<u>189,041</u>	<u>12,558,593</u>
Less accumulated depreciation	<u>(5,652,308)</u>	<u>(438,896)</u>	<u>(189,041)</u>	<u>(5,902,163)</u>
Net property and equipment	<u>\$ 6,679,242</u>	<u>\$ (22,812)</u>	<u>\$ —</u>	<u>\$ 6,656,430</u>

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

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

**NOTE 5 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>Year ended December 31</u>	
	<u>2005</u>	<u>2004</u>
Electric Revenue Notes, Series 2000	\$2,940,000	\$2,955,000
Electric Revenue Refunding Notes, Series 2002	—	345,000
Total	<u>2,940,000</u>	<u>3,300,000</u>
Less current maturities	<u>420,000</u>	<u>360,000</u>
Long-term debt, net of current maturities	<u>\$2,520,000</u>	<u>\$2,940,000</u>

**Electric Revenue Notes, Series 2000**

The Utility issued Electric Revenue Notes, Series 2000 in the original amount of \$3,010,000. The Notes are payable serially each February 1 to 2011 at interest rates ranging from 5.7% to 6%. The Notes are payable solely from future net revenues of the Utility.

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

**NOTE 5 LONG-TERM DEBT (continued)**

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at December 31, 2005. The Notes contain a number of covenants regarding the operation of the Utility, and the Utility is in substantial compliance with those covenants.

The loan agreement calls for monthly deposits into a Sinking Fund to provide for interest upon and principal of the Notes as the same become due. In addition, a Reserve Account is required in the amount of \$301,000. This required Reserve Account balance is to then be maintained throughout the Notes repayment period. The amounts set aside as restricted assets exceeded the requirements of the Sinking Fund and the Reserve Account at December 31, 2005. Future funding requirements of the Sinking Fund during the next five years total 2006 \$592,763; 2007 \$596,897; 2008 \$594,930; 2009 \$599,986; 2010 \$599,029.

Maturities required on long-term debt are as follows:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 420,000	\$ 159,823	\$ 579,823
2007	445,000	135,059	580,059
2008	475,000	108,490	583,490
2009	500,000	80,090	580,090
2010	535,000	49,683	584,683
Thereafter	<u>565,000</u>	<u>16,950</u>	<u>581,950</u>
Total	2,940,000	550,095	3,490,095
Less current maturities	<u>420,000</u>	<u>159,823</u>	<u>579,823</u>
Total long-term debt	<u>\$2,520,000</u>	<u>\$ 390,272</u>	<u>\$2,910,272</u>

A summary of changes in long-term debt for the year ended December 31, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Electric Revenue Notes, Series 2000	\$2,955,000	\$ —	\$ 15,000	\$2,940,000	\$ 420,000
Electric Revenue Refunding Notes, Series 2002	<u>345,000</u>	<u>—</u>	<u>345,000</u>	<u>—</u>	<u>—</u>
Totals	<u>\$3,300,000</u>	<u>\$ —</u>	<u>\$ 360,000</u>	<u>\$2,940,000</u>	<u>\$ 420,000</u>

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

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

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

**NOTE 6 DEFINED BENEFIT PENSION PLAN**

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

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2005, 2004 and 2003 were \$21,654, \$19,937 and \$20,445, respectively, equal to the required contributions for each year.

**NOTE 7 MAJOR CUSTOMERS**

Electricity sales for the years ended December 31, 2005 and 2004 include sales to the following major customers, each of which accounted for 10% or more of the total electricity sales of the Utility for those years.

<u>Customer</u>	<b>Electricity sales</b>	
	<b>Year ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Customer A	\$ 589,243	\$ 577,483
Customer B	420,413	373,144
Totals	<u>\$1,009,656</u>	<u>\$ 950,627</u>
	<b>Customer receivable</b>	
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Customer A	\$ 40,324	\$ 44,629
Customer B	29,017	28,592
Totals	<u>\$ 69,341</u>	<u>\$ 73,221</u>

**NOTE 8 UTILITY RISK MANAGEMENT**

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

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

**NOTE 9 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT**

As of December 31, 2005, the Governmental Accounting Standards Board, GASB, has issued statements not yet implemented by the Utility. The statements which might impact the Utility are as follows:

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

GASB Statement No. 46, *Net Assets Restricted By enabling Legislation*, an amendment of GASB Statement No. 34, issued December 2004, will be effective for the Utility beginning with its year ending December 31, 2006. The purpose of Statement No. 46 is to help governments determine when equity have been restricted to a particular use by the passage of enabling legislation and to specify how equity should be reported in financial statements when there are changes in the circumstances surrounding such legislation.

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

The Utility adopted Statement No. 40, *Deposit and Investment Risk Disclosures*, during the current fiscal year. This Statement established and modified disclosure requirements related to deposit risks and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

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

Our report on our audits of the basic financial statements of Story City Municipal Electric Utility for 2005 and 2004 appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
January 26, 2006

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

	<b>Property and equipment</b>			
	<b>January 1, 2005</b>	<b>Additions</b>	<b>Retirements</b>	
<b>PRODUCTION</b>				
Structures and improvements	\$ 1,564,297	\$ -	\$ -	\$ 1,564,297
Fuel holders and accessories	1,875	-	-	1,875
Prime movers and generators	5,997,600	-	31,885	5,965,715
Accessory electric equipment	72,350	-	-	72,350
Total production	<u>7,636,122</u>	<u>-</u>	<u>31,885</u>	<u>7,604,237</u>
<b>TRANSMISSION</b>				
Station equipment	1,471,237	291,300	138,750	1,623,787
Overhead interconnection line	<u>299,526</u>	<u>-</u>	<u>-</u>	<u>299,526</u>
Total transmission	<u>1,770,763</u>	<u>291,300</u>	<u>138,750</u>	<u>1,923,313</u>
<b>DISTRIBUTION</b>				
Land	27,000	-	-	27,000
Structures and improvements	14,491	-	12,429	2,062
Poles and fixtures	253,820	1,549	893	254,476
Overhead conductors and devices	338,640	1,180	72	339,748
Underground conductors and devices	837,210	33,948	-	871,158
Transformers	687,885	77,719	3,549	762,055
Services and meters	262,357	4,932	-	267,289
Security lights leased	14,304	-	-	14,304
Street lighting system	48,525	5,456	773	53,208
Transportation equipment	<u>377,684</u>	<u>-</u>	<u>-</u>	<u>377,684</u>
Total distribution	<u>2,861,916</u>	<u>124,784</u>	<u>17,716</u>	<u>2,968,984</u>
<b>GENERAL</b>				
Office furniture and equipment	22,522	-	-	22,522
Tools, shop and garage equipment	<u>40,227</u>	<u>-</u>	<u>690</u>	<u>39,537</u>
Total general	<u>62,749</u>	<u>-</u>	<u>690</u>	<u>62,059</u>
Totals	<u>\$12,331,550</u>	<u>\$ 416,084</u>	<u>\$ 189,041</u>	<u>\$12,558,593</u>

<b>Accumulated depreciation</b>			
<b>January 1, 2005</b>	<b>Current provision</b>	<b>Retirements</b>	<b>December 31, 2005</b>
\$ 280,399	\$ 57,025	\$ -	\$ 337,424
1,831	44	-	1,875
3,084,994	182,647	31,885	3,235,756
50,606	4,490	-	55,096
<u>3,417,830</u>	<u>244,206</u>	<u>31,885</u>	<u>3,630,151</u>
766,503	59,005	138,750	686,758
167,122	11,059	-	178,181
<u>933,625</u>	<u>70,064</u>	<u>138,750</u>	<u>864,939</u>
-	-	-	-
13,821	206	12,429	1,598
145,365	7,624	893	152,096
197,467	10,175	72	207,570
224,359	25,626	-	249,985
266,902	21,749	3,549	285,102
189,663	7,945	-	197,608
14,304	-	-	14,304
48,525	2,543	773	50,295
147,435	42,734	-	190,169
<u>1,247,841</u>	<u>118,602</u>	<u>17,716</u>	<u>1,348,727</u>
15,256	3,553	-	18,809
37,756	2,471	690	39,537
<u>53,012</u>	<u>6,024</u>	<u>690</u>	<u>58,346</u>
<u>\$5,652,308</u>	<u>\$ 438,896</u>	<u>\$ 189,041</u>	<u>\$5,902,163</u>

**Story City Municipal Electric Utility  
EXPENSES**

	<b>Year ended December 31</b>	
	<b>2005</b>	<b>2004</b>
<b>PRODUCTION</b>		
Salaries	\$ 103,043	\$ 102,424
Payroll taxes	14,727	14,550
Employee benefits	29,424	26,757
Purchased power	2,357,123	1,913,108
Gas and oil	12,017	112,582
Maintenance	10,118	4,118
Supplies and expenses	24,881	28,266
Depreciation	<u>244,206</u>	<u>250,450</u>
	<u>2,795,539</u>	<u>2,452,255</u>
<b>DISTRIBUTION</b>		
Salaries	116,025	95,667
Payroll taxes	16,582	13,590
Employee benefits	19,501	14,169
Maintenance	25,329	12,395
Supplies and expenses	81,078	32,785
Depreciation	<u>188,666</u>	<u>171,530</u>
	<u>447,181</u>	<u>340,136</u>
<b>ADMINISTRATION AND GENERAL</b>		
Salaries	133,303	127,899
Payroll taxes	19,052	18,169
Employee benefits	17,583	18,469
Insurance	44,641	48,329
Property taxes	5,785	5,580
Audit	9,100	8,900
Other professional fees	3,930	3,450
Uncollectible accounts	9,680	11,715
Supplies and expenses	68,511	74,735
Depreciation	6,024	10,842
Less overhead transfer	<u>(7,753)</u>	<u>(6,636)</u>
	<u>309,856</u>	<u>321,452</u>
Totals	<u>\$3,552,576</u>	<u>\$3,113,843</u>

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

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

We have audited the financial statements of Story City Municipal Electric Utility as of and for the year ended December 31, 2005, and have issued our report thereon dated January 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
January 26, 2006

**Story City Municipal Electric Utility  
SCHEDULE OF FINDINGS  
Year ended December 31, 2005**

**Part I—Findings Related to the Financial Statements**

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

**Story City Municipal Electric Utility  
SCHEDULE OF FINDINGS  
Year ended December 31, 2005**

**Part II—Findings Related to Required Statutory Reporting**

**05-II-A OFFICIAL DEPOSITORIES**

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2005.

**05-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Utility funds were noted.

**05-II-C TRAVEL EXPENSES**

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

**05-II-D BUSINESS TRANSACTIONS**

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

**05-II-E BOARD MINUTES**

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

**05-II-F DEPOSITS AND INVESTMENTS**

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

**05-II-G REVENUE NOTES**

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

**05-II-H BOND COVERAGE**

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