

March 2, 2006

Mr. David A. Vaudt, CPA  
Auditor - State of Iowa  
State Capital Building  
Des Moines, IA 50319-0001

Dear Mr. Vaudt:

Please find enclosed two copies of the audited financial statements for the Lenox Municipal Utilities for the year ended December 31, 2005, along with a copy of the news release, a statement of auditing hours and fees and the annual reporting fee, as required by your office.

Should you have any questions or need additional information, please contact us.

Sincerely,

David Ferris, Superintendent

Enclosures

NEWS RELEASE

Date: March 2, 2006

Contact: David Ferris  
Superintendent

FOR RELEASE: LENOX MUNICIPAL UTILITIES

Dean M. Broich, P.C. today released an audit report on the Lenox Municipal Utilities, of Lenox, Iowa.

Dean M. Broich, P.C.'s report indicated that the Utility's receipts totaled \$1,684,568 for the year ended December 31, 2005. The receipts included, \$ -0- in property tax, \$ - 0 - from the state, \$ -0- from federal government, \$43,199 in interest on investments and \$ - 0 - in bond /note proceeds.

Disbursements for the year ended December 31, 2005 totaled \$1,559,868, and included \$ -0- for community protection, \$ -0- for human development, \$ -0- for home and community environment, \$1,559,868 for policy and administration and \$ -0- for non-program.

A copy of the audit report is available for review in the office of the Auditor of State and the Lenox Municipal Utilities office.

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LENOX MUNICIPAL UTILITIES

FINANCIAL STATEMENTS

DECEMBER 31, 2005

LENOX MUNICIPAL UTILITIES  
LENOX, IOWA  
DECEMBER 31, 2005

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LENOX MUNICIPAL UTILITIES  
OFFICIALS  
DECEMBER 31, 2005

<u>NAME OF OFFICIAL</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Bunch	Trustee - Chairman	May 1, 2008
Norbert Bradley	Trustee	May 1, 2006
Winston Tyler	Trustee	May 1, 2010
David D. Ferris	Superintendent	-

**DEAN M. BROICH, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

2835 S. 132<sup>nd</sup> Street  
Omaha, Nebraska 68144  
(402) 829-0121

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Lenox Municipal Utilities  
Lenox, Iowa

To the Board of Trustees:

I have audited the accompanying financial statements of the Lenox Municipal Utilities, Lenox, Iowa, a component unit of the City of Lenox, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Lenox Municipal Utilities' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

Lenox Municipal Utilities, Lenox, Iowa has not presented management's discussion and analysis, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

As discussed in footnote 1, the financial statements present only the Lenox Municipal Utilities and do not purport to, and do not, present fairly the financial position of the City of Lenox, Lenox, Iowa, and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lenox Municipal Utilities as of December 31, 2005 and 2004, and the results of its operations and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 19, 2006 on my consideration of Lenox Municipal Utility's internal control structure over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this audit report in considering the results of my audit.

  
Certified Public Accountant

Omaha, Nebraska  
January 19, 2006

LENOX MUNICIPAL UTILITIES  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004

ASSETS

	2005		Combined Memorandum Only
	Electric	Water	
Current assets:			
Cash	\$ 69,400	\$ 37,567	\$ 106,967
Receivables	87,259	45,835	133,094
Accrued interest receivable	791	200	991
Prepaid expenses	4,948	2,514	7,462
Inventories	69,193	-	69,193
Total current assets	231,591	86,116	317,707
Property and equipment - net	1,456,705	596,008	2,052,713
Other assets:			
Investments - long-term portion	1,299,139	409,117	1,708,256
Bond sinking fund - restricted	50,297	30,515	80,812
Bond reserve fund - restricted	51,500	45,900	97,400
Deferred compensation - restricted	50,807	27,671	78,478
Total other assets	1,451,743	513,203	1,964,946
Total assets	\$ 3,140,039	\$ 1,195,327	\$ 4,335,366

LIABILITIES AND RETAINED EARNINGS

Current liabilities:			
Accounts payable - trade	\$ 50,729	\$ 19,554	\$ 70,283
Current portion of long-term debt	45,000	7,540	52,540
Accrued interest	2,412	11,898	14,310
Accrued expenses	7,177	3,333	10,510
Customer deposits	14,500	-	14,500
Total current liabilities	119,818	42,325	162,143
Long-term liabilities:			
Deferred compensation	50,807	27,671	78,478
Note and bonds payable	380,000	381,584	761,584
Total long-term liabilities	430,807	409,255	840,062
Retained earnings - reserved	-	76,415	76,415
Retained earnings - unreserved	2,589,414	667,332	3,256,746
Total retained earnings	2,589,414	743,747	3,333,161
Total liabilities and retained earnings	\$ 3,140,039	\$ 1,195,327	\$ 4,335,366

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

LENOX MUNICIPAL UTILITIES  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004

<u>ASSETS</u>				
			2004	
		<u>Electric</u>	<u>Water</u>	<u>Combined Memorandum Only</u>
<b>Current assets:</b>				
Cash	\$	53,506	\$ 29,147	\$ 82,653
Receivables		89,924	38,347	128,271
Accrued interest receivable		358	94	452
Prepaid expenses		6,151	3,175	9,326
Inventories		64,713	-	64,713
Total current assets		<u>214,652</u>	<u>70,763</u>	<u>285,415</u>
Property and equipment - net		<u>1,558,590</u>	<u>644,270</u>	<u>2,202,860</u>
<b>Other assets:</b>				
Investments - long-term portion		1,228,735	330,943	1,559,678
Bond sinking fund - restricted		41,098	15,300	56,398
Bond reserve fund - restricted		51,500	30,515	82,015
Deferred compensation - restricted		46,020	25,315	71,335
Total other assets		<u>1,367,353</u>	<u>402,073</u>	<u>1,769,426</u>
Total assets	\$	<u><u>3,140,595</u></u>	\$ <u><u>1,117,106</u></u>	\$ <u><u>4,257,701</u></u>
<u>LIABILITIES AND RETAINED EARNINGS</u>				
<b>Current liabilities:</b>				
Accounts payable - trade	\$	63,007	\$ 14,806	\$ 77,813
Current portion of long-term debt		45,000	7,119	52,119
Accrued interest		2,566	12,483	15,049
Accrued expenses		6,765	3,760	10,525
Customer deposits		9,000	-	9,000
Total current liabilities		<u>126,338</u>	<u>38,168</u>	<u>164,506</u>
<b>Long-term liabilities:</b>				
Deferred compensation		46,020	25,315	71,335
Note and bonds payable		425,000	388,399	813,399
Total long-term liabilities		<u>471,020</u>	<u>413,714</u>	<u>884,734</u>
Retained earnings - reserved		-	45,815	45,815
Retained earnings - unreserved		2,543,237	619,409	3,162,646
Total retained earnings		<u>2,543,237</u>	<u>665,224</u>	<u>3,208,461</u>
Total liabilities and retained earnings	\$	<u><u>3,140,595</u></u>	\$ <u><u>1,117,106</u></u>	\$ <u><u>4,257,701</u></u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		Combined Memorandum Only
	Electric	Water	
Operating revenues:			
Current use charges	\$ 1,018,901	\$ 583,991	\$ 1,602,892
Miscellaneous and rentals	470	14,749	15,219
Total operating revenues	<u>1,019,371</u>	<u>598,740</u>	<u>1,618,111</u>
Operating expenses:			
Administrative	118,227	38,963	157,190
Sales and use taxes	32,269	30,859	63,128
Payroll and payroll taxes	178,200	96,572	274,772
Office expense	8,899	4,342	13,241
Repairs and maintenance	10,732	4,159	14,891
Plant expense	522,212	269,332	791,544
Distribution expense	42,199	13,928	56,127
Bad debts	2,125	950	3,075
Depreciation	101,885	48,261	150,146
Total operating expenses	<u>1,016,748</u>	<u>507,366</u>	<u>1,524,114</u>
Operating income	<u>2,623</u>	<u>91,374</u>	<u>93,997</u>
Non-operating revenues/(expenses):			
Interest income	33,546	9,653	43,199
Interest expense	<u>(12,217)</u>	<u>(23,537)</u>	<u>(35,754)</u>
Total non-operating revenues/ (expenses)	<u>21,329</u>	<u>(13,884)</u>	<u>7,445</u>
Income before operating transfers	23,952	77,490	101,442
Operating transfers from City	<u>22,225</u>	<u>1,033</u>	<u>23,258</u>
Net income	46,177	78,523	124,700
Retained earnings, beginning of year	<u>2,543,237</u>	<u>665,224</u>	<u>3,208,461</u>
Retained earnings, end of year	<u>\$ 2,589,414</u>	<u>\$ 743,747</u>	<u>\$ 3,333,161</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2004		Combined Memorandum Only
	Electric	Water	
Operating revenues:			
Current use charges	\$ 978,519	\$ 422,350	\$ 1,400,869
Wind turbine generation	47,085	-	47,085
Miscellaneous and rentals	7,842	13,860	21,702
Total operating revenues	<u>1,033,446</u>	<u>436,210</u>	<u>1,469,656</u>
Operating expenses:			
Administrative	114,649	38,312	152,961
Sales and use taxes	35,267	22,137	57,404
Payroll and payroll taxes	167,312	92,038	259,350
Office expense	11,476	2,684	14,160
Repairs and maintenance	6,546	5,531	12,077
Plant expense	501,507	200,994	702,501
Distribution expense	52,953	22,413	75,366
Bad debts	4,262	1,820	6,082
Depreciation	101,827	54,300	156,127
Total operating expenses	<u>995,799</u>	<u>440,229</u>	<u>1,436,028</u>
Operating income (loss)	<u>37,647</u>	<u>(4,019)</u>	<u>33,628</u>
Non-operating revenues/(expenses):			
Interest income	11,106	3,115	14,221
Interest expense	<u>(18,357)</u>	<u>(24,042)</u>	<u>(42,399)</u>
Total non-operating revenues/ (expenses)	<u>(7,251)</u>	<u>(20,927)</u>	<u>(28,178)</u>
Income (loss) before operating transfers	30,396	(24,946)	5,450
Operating transfers from City	<u>30,868</u>	<u>1,033</u>	<u>31,901</u>
Net income (loss)	61,264	(23,913)	37,351
Retained earnings, beginning of year	<u>2,481,973</u>	<u>689,137</u>	<u>3,171,110</u>
Retained earnings, end of year	<u>\$ 2,543,237</u>	<u>\$ 665,224</u>	<u>\$ 3,208,461</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		Combined Memorandum Only
	Electric	Water	
Cash flows from operating activities:			
Cash received from customers	\$ 1,022,036	\$ 576,503	\$ 1,598,539
Cash payments to suppliers	(740,991)	(351,915)	(1,092,906)
Cash payments employees, payroll taxes and benefits	(181,853)	(96,998)	(278,851)
Other revenues	470	14,749	15,219
Net cash provided by operating activities	<u>99,662</u>	<u>142,339</u>	<u>242,001</u>
Cash flows from noncapital financing activities:			
Operating transfers from City	22,225	1,033	23,258
Net cash provided from noncapital financing activities	<u>22,225</u>	<u>1,033</u>	<u>23,258</u>
Cash flows from capital and related financing activities:			
Proceeds from revenue bonds	-	-	-
Payment on principal	(45,000)	(6,291)	(51,291)
Interest paid	(14,936)	(23,353)	(38,289)
Purchase of fixed assets	-	-	-
Net cash used for capital and related financing activities	<u>(59,936)</u>	<u>(29,644)</u>	<u>(89,580)</u>
Cash flows from investing activities:			
Purchase of investments	(132,500)	(114,961)	(247,461)
Proceeds from investments	52,897	-	52,897
Interest on investments	33,546	9,653	43,199
Net cash used by investing activities	<u>(46,057)</u>	<u>(105,308)</u>	<u>(151,365)</u>
Net increase in cash	15,894	8,420	24,314
Cash - beginning of year	<u>53,506</u>	<u>29,147</u>	<u>82,653</u>
Cash - end of year	<u>\$ 69,400</u>	<u>\$ 37,567</u>	<u>\$ 106,967</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2004		Combined Memorandum Only
	Electric	Water	
Cash flows from operating activities:			
Cash received from customers	\$ 1,031,299	\$ 420,685	\$ 1,451,984
Cash payments to suppliers	(798,625)	(289,576)	(1,088,201)
Cash payments employees, payroll taxes and benefits	(169,211)	(92,340)	(261,551)
Other revenues	7,842	13,860	21,702
Net cash provided by operating activities	<u>71,305</u>	<u>52,629</u>	<u>123,934</u>
Cash flows from noncapital financing activities:			
Operating transfers from City	30,868	1,033	31,901
Net cash provided from noncapital financing activities	<u>30,868</u>	<u>1,033</u>	<u>31,901</u>
Cash flows from capital and related financing activities:			
Proceeds from revenue bonds	515,000	-	515,000
Payment on principal	(45,000)	(6,711)	(51,711)
Interest paid	(15,791)	(24,042)	(39,833)
Purchase of fixed assets	(703,946)	-	(703,946)
Net cash used for capital and related financing activities	<u>(249,737)</u>	<u>(30,753)</u>	<u>(280,490)</u>
Cash flows from investing activities:			
Purchase of investments	(132,373)	(27,491)	(159,864)
Proceeds from investments	269,459	-	269,459
Interest on investments	11,106	3,115	14,221
Net cash provided (used) by investment activities	<u>148,192</u>	<u>(24,376)</u>	<u>123,816</u>
Net increase (decrease) in cash	628	(1,467)	(839)
Cash - beginning of year	<u>52,878</u>	<u>30,614</u>	<u>83,492</u>
Cash - end of year	<u>\$ 53,506</u>	<u>\$ 29,147</u>	<u>\$ 82,653</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS-CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2005		Combined Memorandum Only
	Electric	Water	
Operating income (loss)	\$ (1,708)	\$ 91,424	\$ 89,716
Adjustments to reconcile operating income to net cash provided by operations:			
Depreciation	101,885	47,739	149,624
Changes in assets and liabilities:			
Receivables	2,665	(7,488)	(4,823)
Accrued interest receivable	(433)	(106)	(539)
Prepaid expenses	1,203	661	1,864
Inventories	(4,480)	-	(4,480)
Sinking fund	-	6,187	6,187
Accounts payable	(12,278)	4,748	(7,530)
Accrued interest	-	(871)	(871)
Accrued expenses	7,308	45	7,353
Customer deposits	5,500	-	5,500
Net cash provided by operating activities	<u>\$ 99,662</u>	<u>\$ 142,339</u>	<u>\$ 242,001</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS-CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2004		Combined Memorandum Only
	Electric	Water	
Operating income (loss)	\$ 37,647	\$ (4,019)	\$ 33,628
Adjustments to reconcile operating income to net cash provided by operations:			
Depreciation	101,827	54,300	156,127
Changes in assets and liabilities:			
Receivables	5,695	(1,665)	4,030
Accrued interest receivable	(125)	55	(70)
Prepaid expenses	(107)	(312)	(419)
Inventories	(22,963)	-	(22,963)
Sinking fund	-	(112)	(112)
Accounts payable	(53,418)	3,061	(50,357)
Accrued interest	-	119	119
Accrued expenses	1,899	1,202	3,101
Customer deposits	850	-	850
Net cash provided by operating activities	<u>\$ 71,305</u>	<u>\$ 52,629</u>	<u>\$ 123,934</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

ELECTRIC FUND

	2005 Budgeted	2005 Actual	2004 Actual
Revenues	\$ 1,025,462	\$ 1,019,371	\$ 1,033,446
Expenses	<u>925,495</u>	<u>1,028,965</u>	<u>1,095,496</u>
Excess revenues over/(under) expenses from operations	99,967	(9,594)	(62,050)
Other revenues	<u>63,098</u>	<u>55,771</u>	<u>41,974</u>
Excess revenues over expenses	<u>\$ 163,065</u>	<u>\$ 46,177</u>	<u>\$ (20,076)</u>

WATER FUND

Revenues	\$ 602,256	\$ 598,740	\$ 436,210
Expenses	<u>543,544</u>	<u>531,085</u>	<u>464,271</u>
Excess revenues over/(under) expenses from operations	58,712	67,655	(28,061)
Other revenues	<u>37,057</u>	<u>10,868</u>	<u>4,148</u>
Excess revenues over/(under) expenses	<u>\$ 95,769</u>	<u>\$ 78,523</u>	<u>\$ (23,913)</u>

COMBINED - (MEMORANDUM ONLY)

Revenues	\$ 1,627,718	\$ 1,618,111	\$ 1,469,656
Expenses	<u>1,469,039</u>	<u>1,560,050</u>	<u>1,559,767</u>
Excess revenues over/(under) expenses from operations	158,679	58,061	(90,111)
Other revenues	<u>100,155</u>	<u>66,639</u>	<u>46,122</u>
Excess revenues over expenses	<u>\$ 258,834</u>	<u>\$ 124,700</u>	<u>\$ (43,989)</u>

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

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

ELECTRIC FUND

	2004 Budgeted	2004 Actual	2003 Actual
Revenues	\$ 907,211	\$ 1,033,446	\$ 946,655
Expenses	<u>971,104</u>	<u>1,014,156</u>	<u>1,791,362</u>
Excess revenues over/(under) expenses from operations	(63,893)	19,290	(844,707)
Other revenues	<u>86,070</u>	<u>41,974</u>	<u>893,144</u>
Excess revenues over expenses	<u>\$ 22,177</u>	<u>\$ 61,264</u>	<u>\$ 48,437</u>

WATER FUND

Revenues	\$ 382,927	\$ 436,210	\$ 426,713
Expenses	<u>409,896</u>	<u>464,271</u>	<u>448,522</u>
Excess revenues over/(under) expenses from operations	(26,969)	(28,061)	(21,809)
Other revenues	<u>36,330</u>	<u>4,148</u>	<u>6,015</u>
Excess revenues over/(under) expenses	<u>\$ 9,361</u>	<u>\$ (23,913)</u>	<u>\$ (15,794)</u>

COMBINED - (MEMORANDUM ONLY)

Revenues	\$ 1,290,138	\$ 1,469,656	\$ 1,373,368
Expenses	<u>1,381,000</u>	<u>1,478,427</u>	<u>2,239,884</u>
Excess revenues over/(under) expenses from operations	(90,862)	(8,771)	(866,516)
Other revenues	<u>122,400</u>	<u>46,122</u>	<u>899,159</u>
Excess revenues over expenses	<u>\$ 31,538</u>	<u>\$ 37,351</u>	<u>\$ 32,643</u>

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

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. Summary of Significant Accounting Policies

The Reporting Entity:

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the Electric and Water facilities. The Utilities provide billing and collection services for the City of Lenox, however these amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

Basis of Accounting and Presentation:

Lenox Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of Lenox, Iowa. The Utilities provide electricity and water to the City of Lenox and the surrounding community. The Utilities operate as enterprise funds which utilize the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and expenses when incurred.

Operating revenues generally result from providing services and delivering those services in connection with ongoing operations of supplying electricity and water. Receipts and disbursements not meeting this definition are reported as non-operating revenues.

Lenox Municipal Utilities apply 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.

Allowance for Doubtful Accounts:

Management charges off uncollectible accounts operations when it is determined that they are uncollectible. At December 31, 2005 and 2004, accounts receivable were considered to be fully collectible and therefore, these financial statements do not contain an allowance for doubtful accounts.

Fund Accounting:

The Electric and Water funds operate similar to business enterprises. The intent of the governing body is that the cost, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Cash and Cash Equivalents:

For the purpose of the presentation of the statement of cash flows, the Electric and Water Funds do not treat investments (restricted or unrestricted) as cash or cash equivalents.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. Summary of Significant Accounting Policies – continued:

Use of Estimates:

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

Allowance for Doubtful Accounts:

At December 31, 2005 and 2004, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

Reclassifications:

Certain amounts or presentations in the December 31, 2004 statements may have been reclassified to conform to the December 31, 2005 presentation. Net income (loss) remained unchanged as a result of any reclassifications.

2. Inventories

Inventories consist mainly of electrical materials and supplies and are valued at lower of cost or market value (first-in, first-out).

3. Deposits and Investments

The Utilities are authorized to invest in interest bearing savings accounts, interest bearing money market accounts, interest bearing checking accounts, obligations of the United States government or its agencies and instrumentalities, certificates of deposit and other evidence of deposit at federally insured Iowa depository institutions approved and secured pursuant to Chapter 453; Iowa Public Agency Investment Trust and certain other investments with prior approval by the board of trustees.

Deposits and investments are stated at cost, which approximates market. Interest on deposits and investments is accrued in the financial statements. The Utility's deposits are 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. Accordingly, Lenox Municipal Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2005

4. Property and equipment

Depreciation is provided using the straight-line method over the estimated economic useful lives of the respective assets.

<u>Property and Equipment</u>	2005		Combined Memorandum Only
	Electric	Water	
Land	\$ -	\$ 32,000	\$ 32,000
Buildings and plants	1,853,585	909,042	2,762,627
Distribution system	775,086	658,046	1,433,132
Sub-station	425,994	-	425,994
Transmission line	98,652	-	98,652
Automotive equipment	-	58,936	58,936
Total	3,153,317	1,658,024	4,811,341
Less: accumulated depreciation	1,696,612	1,062,016	2,758,628
Property and equipment - net	\$ 1,456,705	\$ 596,008	\$ 2,052,713

<u>Property and Equipment</u>	2004		Combined Memorandum Only
	Electric	Water	
Land	\$ -	\$ 32,000	\$ 32,000
Buildings and plants	1,853,585	909,042	2,762,627
Distribution system	775,086	658,046	1,433,132
Sub-station	425,994	-	425,994
Transmission line	98,652	-	98,652
Automotive equipment	-	58,936	58,936
Total	3,153,317	1,658,024	4,811,341
Less: accumulated depreciation	1,594,727	1,013,754	2,608,481
Property and equipment - net	\$ 1,558,590	\$ 644,270	\$ 2,202,860

5. Pension and Retirement Benefits

Lenox 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.

Plan members are required to contribute 3.70% of their annual covered salary and Lenox Municipal Utilities is required to contribute 5.75% of annual covered payroll, respectively. Contribution requirements are established by State statute. Lenox Municipal Utilities contribution to IPERS for the years ended December 31, 2005 and 2004 were \$25,262 and \$23,419, respectively, equal to the required contributions for each year.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2005

6. Deferred Compensation

Lenox Municipal Utilities offer all full-time employees the option of participating in the ICMA Retirement Corporation's Deferred Compensation Plan. Under the plan, an employee may elect to have up to a maximum of 25% of compensation or \$13,000 a year, whichever is smaller, withheld and invested with ICMA. The salary of the employee that is deferred is not taxable for federal income tax purposes to the employee until retirement, but is taxable for social security and state income taxes and is included in determining IPERS contributions (see Note 6). The employer retains ownership of the fund until paid or made available to participants, subject only to the claims of the government's general creditors. A written contract exists with each plan participant and the Utilities responsibility is limited to the payment of the deferred compensation to the plan. For the years ended December 31, 2005 and 2004, five employees participated in the plan and contributions amounted to \$4,680 and \$4,335, respectively. The unfunded balance at December 31, 2005 and 2004 amounted to \$195 and \$195, respectively.

7. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Utilities annually adopt a budget on the cash basis following required public notice. Accordingly, budget to actual comparisons are presented on a non-GAAP budgetary basis in the accompanying financial statements. The adjustments necessary to reconcile the differences between the two methods of accounting are summarized as follows:

	2005		
	Electric	Water	Combined Memorandum Only
Net income - budgetary basis	\$ 46,692	\$ 75,397	\$ 122,089
Increase (decrease) in:			
Receivables	2,665	(7,488)	(4,823)
Accrued interest receivable	(433)	(106)	(539)
Prepaid expenses	1,203	661	1,864
Inventories	(4,480)	-	(4,480)
Sinking fund	-	6,187	6,187
 (Increase)/decrease in:			
Accounts payable	(12,278)	4,748	(7,530)
Accrued interest payable	-	(871)	(871)
Accrued expenses	7,308	45	7,353
Other current liabilities	5,500	-	5,500
 Net income - accrual (GAAP basis)	\$ 46,177	\$ 78,573	\$ 124,750

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2005

7. Budgets and Budgetary Accounting – continued:

	2004		
	Electric	Water	Combined Memorandum Only
Net income (loss) - budgetary basis	\$ 88,258	\$ (21,565)	\$ 66,693
Increase (decrease) in:			
Receivables	(5,695)	1,665	(4,030)
Accrued interest receivable	125	(55)	70
Prepaid expenses	107	312	419
Inventories	22,963	-	22,963
Sinking fund	(92,598)	112	(92,486)
 (Increase)/decrease in:			
Accounts payable	53,418	(3,061)	50,357
Accrued interest payable	(2,566)	(119)	(2,685)
Accrued expenses	(1,898)	(1,202)	(3,100)
Other current liabilities	(850)	-	(850)
 Net income (loss) - accrual (GAAP basis)	<u>\$ 61,264</u>	<u>\$ (23,913)</u>	<u>\$ 37,351</u>

8. Electric Revenue Notes

In 2003, Lenox Municipal Utilities was the sub-recipient of a Community Development Block Grant issued to the City of Lenox, Iowa by the Iowa Department of Economic Development. The City of Lenox received CDGB funds in the amount of \$400,000. The City of Lenox entered into a construction and operation agreement and designated the Lenox Municipal Utilities a sub-recipient of the Grant money to construct and operate a Wind Turbine for the benefit of the Lenox community. In conjunction with the construction of the wind turbine, Lenox Municipal Utilities was required to provide all funds in excess of the \$400,000 grant. Electric Revenue Notes were issued in the amount of \$515,000, to replace construction reserves for extension lines which were used in the construction of the wind turbine. The Electric Revenue Notes dated May 1, 2003 were issued in \$5,000 denominations or multiples thereof, and mature on May 1 of each year. Interest on the notes are payable semi-annually on May 1 and November 1 of each year the notes are outstanding. Interest paid in 2005 and 2004 on the Electric Revenue Notes amounted to \$14,936 and \$15,791, respectively.

Principal and interest payments on the Electric Revenue Notes mature as follows:

	Principal	Interest
2006	\$ 45,000	\$ 13,935
2007	50,000	12,708
2008	50,000	11,258
2009	50,000	9,670
2010	50,000	9,670
2011 - 2014	180,000	9,060
	<u>\$ 425,000</u>	<u>\$ 66,301</u>

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2005

8. Electric Revenue Notes – continued:

The operating agreement provides that City shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine. The City also agreed to reimburse the Utility for amounts which will be adequate for the operation, maintenance, insurance, and long term equipment repair and replacement cost of the wind turbine generator. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

Note payments, reserves, sinking funds and related reserves are payable solely from the Net Revenues of the Electric System. The notes are callable May 1, 2010.

Funds are restricted in conjunction with the issuance of Electric Revenue Notes to assist with the construction and operation of a Wind Turbine. The Electric Reserve Fund is funded by the Gross Revenues of the Electric System and shall be used to maintain and operate the Electric System, and after payment of the operating expenses shall, to the extent herein provided, be used to pay the principal and interest on the Electric Revenue Notes and to create and maintain the Electric Revenue Sinking Fund. At December 31, 2005 and 2004, funds accumulated amounted to \$51,500 and \$51,500, respectively.

Electric Revenue Sinking Fund payments are required on a monthly basis to be used solely for payment of principal and interest on the Electric Revenue Notes. Note sinking payments are to be funded at no less than one-twelfth of the installment maturing each May 1. At December 31, 2005 and 2004, Electric Revenue Sinking Funds amounted to \$50,297 and \$41,098, respectively.

9. Long-term Debt – Water Fund

Lenox Municipal Utilities incurred debt in 1990 in conjunction with an undivided interest in a water line jointly constructed by Southern Iowa Rural Water Association (SIRWA). Parties to the contract were Taylor County, City of Lenox, the Municipal Waterworks Board (Lenox) and SIRWA. Terms of the contract allows Lenox and Taylor County the perpetual right to use the water transmission line and to purchase established maximum capacities of water for a period of 40 years. There are no minimum purchase requirements. Lenox Municipal Utilities incurred debt from Rural Economic and Community Development in the original amount of \$453,000. The note matures July 1, 2029 and is payable annually on July 1 in installments of \$30,515, including principal and interest. The note bears interest at the rate of 6 percent.

Maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 7,540	\$ 22,975
2007	7,993	22,522
2008	8,472	22,043
2009	8,980	21,535
2010	9,519	20,996
2011 - 2015	56,880	95,695
2016 - 2020	76,119	76,456
2021 - 2025	101,864	50,711
2026 - 2029	<u>111,757</u>	<u>10,303</u>
	<u>\$ 389,124</u>	<u>\$ 343,236</u>

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2005

9. Long-term Debt – Water Fund - continued:

Funds are restricted in conjunction with the issuance of Rural Economic and Community Development debt. The bond reserve fund was funded at the rate of \$255 per month until the sum of \$30,515 had been accumulated. At December 31, 2005 and 2004, funds accumulated amounted to \$30,515. The reserve fund is to be transferred to the sinking fund whenever necessary to prevent or remedy a default in the payment of the principal and interest to Rural Economic and Community Development.

Bond sinking fund payments are required on a monthly basis to be used solely for payment of principal and interest on the Rural Economic and Community Development note. Bond sinking payments are to be funded at no less than one-twelfth of the installment maturing each July 1. At December 31, 2005 and 2004, sinking funds amounted to \$15,300 and \$15,300, respectively.

10. 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.

11. Off Balance Sheet and Concentration of Credit Risk

The Utilities receivables are due from customers for electric and water charges for the City of Lenox, Iowa and the surrounding community. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

**DEAN M. BROICH, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Lenox Municipal Utilities  
Lenox, Iowa

I have audited the financial statements of the Lenox Municipal Utilities, Lenox, Iowa as of and for the year ended December 31, 2005, and have issued my report thereon dated January 19, 2006. I conducted my 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 of America.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Lenox Municipal Utilities' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, 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 the supplementary information of Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My 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, I believe the segregation of duties and the use of facsimile signature stamps are material weaknesses. Prior year reportable conditions have been resolved.

**Compliance**

As part of obtaining reasonable assurance about whether Lenox Municipal Utilities' financial statements are free of material misstatement, I 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Lenox Municipal Utilities' operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of Lenox Municipal Utilities. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have not been resolved.

This report is intended solely for the information and use of the audit committee, management and trustees within the organization, the Lenox City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me during the course of my audit. Should you have any questions or concerns regarding any of the above matters, I shall be pleased to discuss them with you.



Certified Public Accountant

Omaha, Nebraska  
January 19, 2006

LENOX MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Findings related to the Financial Statements:

Instances on Non-Compliance:

No matters were noted.

Reportable conditions:

- 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. Cash receipts, billings, and postings to customer's accounts are some of the incompatible duties which are often performed by the same employee.

Recommendation - While segregation of duties is difficult with a limited number of personnel, management should continue to regularly review operating procedures at regular intervals to obtain the maximum internal control possible.

Response - Based on monthly reviews of internally prepared financial statements, approval of all payments prior to signatures and overall supervision by the superintendent and the Board, there appear to be sufficient compensating controls. A part-time employee has been hired to assist in the accounting duties and billing cycles at various intervals.

Conclusion - Response accepted.

- B. Facsimile signature stamps - Facsimile signature stamps are used to facilitate payment of vouchers. Without proper controls or retention of the stamps internal control is not effective. Unauthorized use of the stamps on disbursements or other documents could occur.

Recommendation - Eliminate the stamps or provide adequate controls against their unauthorized use.

Response - The stamps are retained by office personnel, locked in the Utilities safe, and are only used by the respective board member for check signing purposes. All other documents are signed manually. Also, all vouchers are approved prior to payment by the Board of Trustees and bank reconciliations are prepared monthly.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

The following comments about the Lenox Municipal Utilities' operations for the year ended December 31, 2005, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my 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.

1. Official depositories - Deposits were maintained in accounts which had been adopted by resolution as official depositories and were within the deposit limits in the Utilities policies.
2. Certified Budget – Budgeted expenditures for the year ended December 31, 2005 did not exceed actual disbursements as required under Chapter 384.20 of the Code of Iowa. The budget should have been amended in sufficient amounts, in accordance with Chapter 381.18 of the Code of Iowa.

LENOX MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2005

3. Questionable disbursements - I 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 expenses - No disbursements of the Utilities money for travel expenses of spouses of utility officials or employees were noted.
5. Business transactions - All business transactions noted between the Utility and Utility officials appeared to be in the normal course of business and appeared to be at arm's length.
6. Bond coverage - Surety bond coverage of the Utilities officials and employees is in accordance with statutory provisions. The amount of the coverage is reviewed annually to insure that the coverage is adequate for the current operations.
7. Board minutes - No transactions were found that I believe should have been approved in the minutes but were not.
8. Deposits and investments - I noted no instance of noncompliance with the deposit and investment provisions of the Code of Iowa and the Utilities' investment policies and deposit limits.
9. Revenue Notes - No violations of the provisions of the revenue notes were noted.
10. Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.