

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

FINANCIAL REPORT

December 31, 2006

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Story City Municipal Electric Utility
OFFICIALS
December 31, 2006

BOARD OF TRUSTEES

Term expires

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

June 1, 2008
June 1, 2010
June 1, 2012

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, 2006 and 2005, 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, 2006 and 2005, 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 March 14, 2007 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
March 14, 2007

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, 2006 and 2005. 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 \$149,463 to \$10,947,736
- Total noncurrent assets whose use is limited increased by \$426,314 to \$2,809,291
- Total property and equipment decreased by \$327,310 to \$6,329,120
- Total equity increased by \$578,165 to \$8,126,802
- Total long-term debt decreased by \$420,000
- Total revenues increased by \$74,440, or 2%, primarily due to increased electricity revenue resulting from a corresponding increase in the cost of purchased power
- Expenses increased by \$119,077, or 3% to \$3,671,653, 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

	December 31		
	2006	2005	2004
Current assets	\$ 1,797,625	\$ 1,735,466	\$ 1,744,623
Noncurrent assets whose use is limited	2,809,291	2,382,977	2,271,622
Property and equipment	6,329,120	6,656,430	6,679,242
Other asset	<u>11,700</u>	<u>23,400</u>	<u>35,100</u>
Total assets	<u>\$10,947,736</u>	<u>\$10,798,273</u>	<u>\$10,730,587</u>
Current liabilities	\$ 745,934	\$ 729,636	\$ 776,322
Long-term debt, less current maturities	<u>2,075,000</u>	<u>2,520,000</u>	<u>2,940,000</u>
Total liabilities	<u>\$ 2,820,934</u>	<u>\$ 3,249,636</u>	<u>\$ 3,716,322</u>
Invested in capital assets, net of related debt	\$ 3,809,120	\$ 3,716,430	\$ 3,379,242
Restricted	915,361	873,937	908,492
Unrestricted	<u>3,402,321</u>	<u>2,958,270</u>	<u>2,726,531</u>
Total equity	<u>\$ 8,126,802</u>	<u>\$ 7,548,637</u>	<u>\$ 7,014,265</u>

As depicted in Table 1, total assets increased in fiscal year 2006 to \$10,947,736. 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

	Year ended December 31		
	2006	2005	2004
Electricity revenue	\$4,256,693	\$4,183,487	\$3,703,527
Other revenue	<u>18,755</u>	<u>17,521</u>	<u>15,945</u>
Total revenues	<u>4,275,448</u>	<u>4,201,008</u>	<u>3,719,472</u>
Salaries	390,817	352,371	325,990
Other expenses	2,843,966	2,761,309	2,355,031
Depreciation expense	<u>436,870</u>	<u>438,896</u>	<u>432,822</u>
Total expenses	<u>3,671,653</u>	<u>3,552,576</u>	<u>3,113,843</u>
Operating income	<u>603,795</u>	<u>648,432</u>	<u>605,629</u>
Interest income	167,687	101,478	44,921
Service donated to municipality	(31,684)	(30,804)	(31,354)
Interest expense	(149,933)	(173,034)	(187,249)
Amortization of financing costs	<u>(11,700)</u>	<u>(11,700)</u>	<u>(11,700)</u>
Total nonoperating gains (losses)	<u>(25,630)</u>	<u>(114,060)</u>	<u>(185,382)</u>
Change in equity	578,165	534,372	420,247
Total equity, beginning	<u>7,548,637</u>	<u>7,014,265</u>	<u>6,594,018</u>
Total equity, ending	<u>\$8,126,802</u>	<u>\$7,548,637</u>	<u>\$7,014,265</u>

Operating and Financial Performance

The following summarizes the Utility's statements of revenues, expenses and changes in equity between December 31, 2006 and 2005.

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

Volume: During the year ended December 31, 2006, the number of Utility customers remained very comparable with 2005. Electricity charges increased \$73,206, or 2% in 2006 as the Utility incurred a slight increase in purchased power costs.

Price Increase: In early 2005, the Utility initiated an electricity rate study and implemented price increases to reflect the Utility's increased cost of electricity. In 2006, the Utility did not implement any price increases.

Other Revenue

Other revenue increased to \$18,755 in 2006 compared to \$17,521 in 2005.

Expenses

Approximately 10% of Utility's expenses are for salaries. Total salaries increased \$38,446, or 11% in 2006, primarily due to the fact that 2006 represented the first full year for an employee who started working in late 2005 and certain market adjustments the Utility provided to certain employees in 2006.

Approximately 80% of Utility's expenses are for other expenses. Total other expenses increased \$82,657, or 3% in 2006. The most significant increase related to purchased power costs.

Approximately 10% of Utility's expenses relate to depreciation expense. Depreciation expense decreased to \$436,870 in 2006 from \$438,896 in 2005.

Nonoperating Gains (Losses)

Nonoperating gains (losses) changed to \$(25,630) from \$(114,060) in 2005, primarily due to an increase in interest income.

Property and Equipment

At the end of 2006, the Utility had \$6,329,120 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment.

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

Table 3
Property and Equipment

	December 31		
	2006	2005	2004
Production	\$ 7,492,963	\$ 7,604,237	\$ 7,636,122
Transmission	1,923,313	1,923,313	1,770,763
Distribution	3,060,763	2,968,984	2,861,916
General	13,822	62,059	62,749
Subtotal	12,490,861	12,558,593	12,331,550
Less accumulated depreciation	(6,161,741)	(5,902,163)	(5,652,308)
Property and equipment	<u>\$ 6,329,120</u>	<u>\$ 6,656,430</u>	<u>\$ 6,679,242</u>

Debt Administration

At year end, the Utility had \$2,520,000 in current and long-term debt related to Electric Revenue Notes, Series 2000. The overall principal balance decreased by \$420,000 in fiscal year 2006 as compared to 2005. More detailed information about the Utility's outstanding debt is presented in the Notes to Financial Statements. The Notes represent approximately 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**

ASSETS	December 31	
	2006	2005
CURRENT ASSETS		
Cash	\$ 436,465	\$ 447,903
Certificate of deposit	199,000	199,000
Assets whose use is limited, required for current liabilities	506,070	490,960
Customer receivables, less allowance for uncollectible accounts 2006 and 2005 \$15,000	351,463	351,703
Other receivables	-	703
Inventories	292,037	233,027
Prepaid insurance	<u>12,590</u>	<u>12,170</u>
Total current assets	<u>1,797,625</u>	<u>1,735,466</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	900,000	700,000
Certificates of deposit	1,500,000	1,300,000
Restricted for payment of long-term debt and interest		
Cash	572,561	547,837
Certificates of deposit	301,000	301,000
Interest receivable	<u>41,800</u>	<u>25,100</u>
	3,315,361	2,873,937
Less assets whose use is limited and that are required for current liabilities	<u>506,070</u>	<u>490,960</u>
Noncurrent assets whose use is limited	<u>2,809,291</u>	<u>2,382,977</u>
PROPERTY AND EQUIPMENT	12,490,861	12,558,593
Less accumulated depreciation	<u>6,161,741</u>	<u>5,902,163</u>
Total property and equipment	<u>6,329,120</u>	<u>6,656,430</u>
OTHER ASSET		
Unamortized financing costs	<u>11,700</u>	<u>23,400</u>
 Totals	 <u>\$10,947,736</u>	 <u>\$10,798,273</u>

December 31

LIABILITIES AND EQUITY

	2006	2005
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 445,000	\$ 420,000
Accounts payable	204,235	200,667
Accrued interest	61,070	70,960
Accrued expenses	35,629	38,009
	745,934	729,636
LONG-TERM DEBT , less current maturities	<u>2,075,000</u>	<u>2,520,000</u>
 EQUITY		
Invested in capital assets, net of related debt	3,809,120	3,716,430
Restricted	915,361	873,937
Unrestricted	3,402,321	2,958,270
Total equity	8,126,802	7,548,637
	\$10,947,736	\$10,798,273
Totals	<u>\$10,947,736</u>	<u>\$10,798,273</u>

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

	Year ended December 31	
	2006	2005
REVENUES		
Electricity revenue		
Residential	\$1,484,656	\$1,491,725
Commercial	565,565	559,960
Large power	<u>2,206,472</u>	<u>2,131,802</u>
	4,256,693	4,183,487
Other	18,755	17,521
Total revenues	<u>4,275,448</u>	<u>4,201,008</u>
EXPENSES		
Production	2,872,287	2,795,539
Distribution	478,839	447,181
Administration and general	<u>320,527</u>	<u>309,856</u>
Total expenses, including depreciation		
expense 2006 \$436,870; 2005 \$438,896	<u>3,671,653</u>	<u>3,552,576</u>
Operating income	<u>603,795</u>	<u>648,432</u>
NONOPERATING GAINS (LOSSES)		
Interest income	167,687	101,478
Service donated to municipality	(31,684)	(30,804)
Interest expense	(149,933)	(173,034)
Amortization of financing costs	<u>(11,700)</u>	<u>(11,700)</u>
Total nonoperating gains (losses)	<u>(25,630)</u>	<u>(114,060)</u>
Change in equity	578,165	534,372
TOTAL EQUITY		
Beginning	<u>7,548,637</u>	<u>7,014,265</u>
Ending	<u>\$8,126,802</u>	<u>\$7,548,637</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$4,225,249	\$4,154,854
Cash paid to suppliers for goods and services	(2,901,505)	(2,734,191)
Cash paid to employees for services	(390,817)	(352,371)
Other operating revenue received	<u>18,755</u>	<u>17,521</u>
Net cash provided by operating activities	<u>951,682</u>	<u>1,085,813</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(109,560)	(515,548)
Interest paid on long-term debt	(159,823)	(178,944)
Principal payments on long-term debt	<u>(420,000)</u>	<u>(360,000)</u>
Net cash (used in) capital and related financing activities	<u>(689,383)</u>	<u>(1,054,492)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	2,200,000	1,200,000
Purchase of investments	(2,400,000)	(2,400,000)
Interest received	<u>150,987</u>	<u>94,778</u>
Net cash (used in) investing activities	<u>(49,013)</u>	<u>(1,105,222)</u>
NET INCREASE (DECREASE) IN CASH	213,286	(1,073,901)
CASH		
Beginning	<u>1,695,740</u>	<u>2,769,641</u>
Ending	<u>\$1,909,026</u>	<u>\$1,695,740</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 603,795	\$ 648,432
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	436,870	438,896
Service donated to municipality	(31,684)	(30,804)
Changes in assets and liabilities		
Decrease in customer receivables	240	2,171
Decrease in other receivables	703	62,535
(Increase) in inventories	(59,010)	(33,875)
(Increase) in prepaid insurance	(420)	(230)
Increase (decrease) in accounts payable, net of amounts for property and equipment	3,568	(2,544)
Increase (decrease) in accrued expenses	<u>(2,380)</u>	<u>1,232</u>
Net cash provided by operating activities	<u>\$ 951,682</u>	<u>\$1,085,813</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 436,465	\$ 447,903
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	900,000	700,000
Restricted for payment of long-term debt and interest, cash	<u>572,561</u>	<u>547,837</u>
Statement of cash flows totals	<u>\$1,909,026</u>	<u>\$1,695,740</u>

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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

Reporting Entity

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

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Investments and Interest Income

The Utility's investments 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 2 CASH AND INVESTMENTS

The Utility's deposits at December 31, 2006 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. Funds 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, 2006:

	<u>Sinking Fund</u>	<u>Reserve Account</u>	<u>Total</u>
BALANCE , beginning of year	\$ 572,937	\$ 301,000	\$ 873,937
Transfers from (to) current assets, cash	621,247	-	621,247
Principal and interest payments	<u>(579,823)</u>	<u>-</u>	<u>(579,823)</u>
BALANCE , end of year	<u>\$ 614,361</u>	<u>\$ 301,000</u>	<u>\$ 915,361</u>

NOTE 4 PROPERTY AND EQUIPMENT

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

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Production	\$ 7,492,963	\$3,754,924	\$ 7,604,237	\$3,630,151
Transmission	1,923,313	939,857	1,923,313	864,939
Distribution	3,060,763	1,454,566	2,968,984	1,348,727
General	<u>13,822</u>	<u>12,394</u>	<u>62,059</u>	<u>58,346</u>
Totals	<u>\$12,490,861</u>	<u>\$6,161,741</u>	<u>\$12,558,593</u>	<u>\$5,902,163</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, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 7,604,237	\$ —	\$ 111,274	\$ 7,492,963
Transmission	1,923,313	—	—	1,923,313
Distribution	2,968,984	109,560	17,781	3,060,763
General	62,059	—	48,237	13,822
Totals	<u>12,558,593</u>	<u>109,560</u>	<u>177,292</u>	<u>12,490,861</u>
Less accumulated depreciation	<u>(5,902,163)</u>	<u>(436,870)</u>	<u>(177,292)</u>	<u>(6,161,741)</u>
Net property and equipment	<u>\$ 6,656,430</u>	<u>\$ (327,310)</u>	<u>\$ —</u>	<u>\$ 6,329,120</u>

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>

NOTE 5 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended December 31</u>	
	<u>2006</u>	<u>2005</u>
Electric Revenue Notes, Series 2000	\$2,520,000	\$2,940,000
Less current maturities	<u>445,000</u>	<u>420,000</u>
Long-term debt, net of current maturities	<u>\$2,075,000</u>	<u>\$2,520,000</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 remaining interest rates ranging from 5.75% 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, 2006. 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, 2006. Future funding requirements of the Sinking Fund during the remaining five years total 2007 \$596,897; 2008 \$594,930; 2009 \$599,986; 2010 \$599,029; 2011 \$49,909.

Maturities required on long-term debt are as follows:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2011	<u>565,000</u>	<u>16,950</u>	<u>581,950</u>
Total	2,520,000	390,272	2,910,272
Less current maturities	<u>445,000</u>	<u>135,059</u>	<u>580,059</u>
Total long-term debt	<u>\$2,075,000</u>	<u>\$ 255,213</u>	<u>\$2,330,213</u>

A summary of changes in long-term debt for the year ended December 31, 2006 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	<u>\$2,940,000</u>	<u>\$ —</u>	<u>\$ 420,000</u>	<u>\$2,520,000</u>	<u>\$ 445,000</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>

**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, 2006, 2005 and 2004 were \$23,631, \$21,654 and \$19,937, respectively, equal to the required contributions for each year.

NOTE 7 MAJOR CUSTOMERS

Electricity sales for the years ended December 31, 2006 and 2005 include sales to the following major customers, each of which accounted for approximately 10% or more of the total electricity sales of the Utility for those years.

<u>Customer</u>	Electricity sales	
	Year ended December 31	
	2006	2005
Customer A	\$ 588,974	\$ 589,243
Customer B	408,977	420,413
Totals	\$ 997,951	\$1,009,656
	Customer receivable	
	December 31	
	2006	2005
Customer A	\$ 45,897	\$ 40,324
Customer B	22,676	29,017
Totals	\$ 68,573	\$ 69,341

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.

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 2006 and 2005 appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 14, 2007

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

	Property and equipment			
	January 1, 2006	Additions	Deletions	
PRODUCTION				
Structures and improvements	\$ 1,564,297	\$ -	\$ -	\$ 1,564,297
Fuel holders and accessories	1,875	-	1,875	-
Prime movers and generators	5,965,715	-	102,164	5,863,551
Accessory electric equipment	72,350	-	7,235	65,115
Total production	<u>7,604,237</u>	<u>-</u>	<u>111,274</u>	<u>7,492,963</u>
TRANSMISSION				
Station equipment	1,623,787	-	-	1,623,787
Overhead interconnection line	299,526	-	-	299,526
Total transmission	<u>1,923,313</u>	<u>-</u>	<u>-</u>	<u>1,923,313</u>
DISTRIBUTION				
Land	27,000	-	-	27,000
Structures and improvements	2,062	-	-	2,062
Poles and fixtures	254,476	1,814	923	255,367
Overhead conductors and devices	339,748	-	179	339,569
Underground conductors and devices	871,158	21,059	-	892,217
Transformers	762,055	23,072	2,636	782,491
Services and meters	267,289	2,574	-	269,863
Security lights leased	14,304	260	-	14,564
Street lighting system	53,208	-	193	53,015
Transportation equipment	377,684	60,781	13,850	424,615
Total distribution	<u>2,968,984</u>	<u>109,560</u>	<u>17,781</u>	<u>3,060,763</u>
GENERAL				
Office furniture and equipment	22,522	-	8,700	13,822
Tools, shop and garage equipment	39,537	-	39,537	-
Total general	<u>62,059</u>	<u>-</u>	<u>48,237</u>	<u>13,822</u>
Totals	<u>\$12,558,593</u>	<u>\$ 109,560</u>	<u>\$ 177,292</u>	<u>\$12,490,861</u>

Accumulated depreciation			
January 1, 2006	Additions	Deletions	December 31, 2006
\$ 337,424	\$ 57,026	\$ -	\$ 394,450
1,875	-	1,875	-
3,235,756	174,984	102,164	3,308,576
55,096	4,037	7,235	51,898
<u>3,630,151</u>	<u>236,047</u>	<u>111,274</u>	<u>3,754,924</u>
686,758	63,859	-	750,617
178,181	11,059	-	189,240
<u>864,939</u>	<u>74,918</u>	<u>-</u>	<u>939,857</u>
-	-	-	-
1,598	206	-	1,804
152,096	7,648	923	158,821
207,570	10,190	179	217,581
249,985	26,450	-	276,435
285,102	23,168	2,636	305,634
197,608	8,057	-	205,665
14,304	260	-	14,564
50,295	2,656	193	52,758
190,169	44,985	13,850	221,304
<u>1,348,727</u>	<u>123,620</u>	<u>17,781</u>	<u>1,454,566</u>
18,809	2,285	8,700	12,394
39,537	-	39,537	-
<u>58,346</u>	<u>2,285</u>	<u>48,237</u>	<u>12,394</u>
<u>\$5,902,163</u>	<u>\$ 436,870</u>	<u>\$ 177,292</u>	<u>\$6,161,741</u>

**Story City Municipal Electric Utility
EXPENSES**

	Year ended December 31	
	<u>2006</u>	<u>2005</u>
PRODUCTION		
Salaries	\$ 112,870	\$ 103,043
Payroll taxes	15,881	14,727
Employee benefits	31,742	29,424
Purchased power	2,402,895	2,357,123
Gas and oil	27,719	12,017
Maintenance	19,311	10,118
Supplies and expenses	25,822	24,881
Depreciation	<u>236,047</u>	<u>244,206</u>
	<u>2,872,287</u>	<u>2,795,539</u>
DISTRIBUTION		
Salaries	138,832	116,025
Payroll taxes	19,533	16,582
Employee benefits	22,105	19,501
Maintenance	26,494	25,329
Supplies and expenses	73,337	81,078
Depreciation	<u>198,538</u>	<u>188,666</u>
	<u>478,839</u>	<u>447,181</u>
ADMINISTRATION AND GENERAL		
Salaries	139,115	133,303
Payroll taxes	19,573	19,052
Employee benefits	14,056	17,583
Insurance	41,592	44,641
Property taxes	5,880	5,785
Audit	9,200	9,100
Other professional fees	3,360	3,930
Uncollectible accounts	9,250	9,680
Supplies and expenses	82,666	68,511
Depreciation	2,285	6,024
Less overhead transfer	<u>(6,450)</u>	<u>(7,753)</u>
	<u>320,527</u>	<u>309,856</u>
Totals	<u>\$3,671,653</u>	<u>\$3,552,576</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, 2006, and have issued our report thereon dated March 14, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 2006 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

West Des Moines, Iowa
March 14, 2007

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2006**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, 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, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Utility funds were noted.

06-II-B TRAVEL EXPENSES

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

06-II-C BUSINESS TRANSACTIONS

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

06-II-D BOARD MINUTES

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

06-II-E 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.

06-II-F REVENUE NOTES

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

06-II-G 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.