LENOX MUNICIPAL UTILITIES

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LENOX MUNICIPAL UTILITIES
LENOX, IOWA
DECEMBER 31, 2007

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LENOX MUNICIPAL UTILITIES
OFFICIALS
DECEMBER 31, 2007

NAME OF OFFICIAL	TITLE	TERM EXPIRES
Dennis Bunch	Trustee - Chairman	May 1, 2008
Winston Tyler	Trustee	May 1, 2010
Wayne Haidsiak	Trustee	May 1, 2012
David D. Ferris	Superintendent	-

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

2835 S. 132nd 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, 2007 and 2006, 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 U.S. generally accepted auditing standards 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, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 23, 2008 on my consideration of Lenox Municipal Utility's internal control 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.

Dean M Broich

Certified Public Accountant

Omaha, Nebraska
January 23, 2008

LENOX MUNICIPAL UTILITIES
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2007			
	Electric	Water	Cable	Combined Memorandum Only
Current assets:				
Cash	$ 71,229	$ 42,847	$ 35,639	$ 149,715
Receivables	96,732	43,634	15,066	155,432
Prepaid expenses	12,034	2,871	2,567	17,472
Inventories	93,524	-	-	93,524
Total current assets	273,519	89,352	53,272	416,143
Noncurrent assets:				
Investments - long-term portion	1,489,714	462,946	161,391	2,114,051
Bond sinking fund - restricted	52,365	51,885	-	104,250
Bond reserve fund - restricted	51,500	103,515	-	155,015
Deferred compensation - restricted	60,665	32,144	7,988	100,797
Total noncurrent assets	1,654,244	650,490	169,379	2,474,113
Capital assets - net of depreciation	1,331,201	1,539,647	-	2,870,848
Total assets	$ 3,258,964	$ 2,279,489	$222,651	$ 5,761,104

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable - trade	$ 64,495	$ 23,032	$ 4,170	$ 91,697
Current portion of long-term debt	50,000	48,472	-	98,472
Accrued interest	1,749	13,975	-	15,724
Accrued expenses	2,404	1,184	4,070	7,658
Customer deposits	14,900	-	-	14,900
Total current liabilities	133,548	86,663	8,240	228,451
Long-term liabilities:				
Deferred compensation	60,665	32,144	7,988	100,797
Note and bonds payable	280,000	1,375,699	-	1,655,699
Total long-term liabilities	340,665	1,407,843	7,988	1,756,496
Net assets:				
Investment in capital assets - net of related debt	1,001,201	115,206	-	1,116,407
Net assets - restricted	103,865	155,400	-	259,265
Net assets - unrestricted	1,679,685	514,377	206,423	2,400,485
Total net assets	2,784,751	784,983	206,423	3,776,157
Total liabilities and net assets	$ 3,258,964	$ 2,279,489	$222,651	$ 5,761,104

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

LENOX MUNICIPAL UTILITIES
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2006			
	Electric	Water	Cable	Combined Memorandum Only
Current assets:				
Cash	$ 60,254	$ 127,626	$ 60,708	$ 248,588
Receivables	99,904	49,485	11,640	161,029
Accrued interest receivable	1,000	320	-	1,320
Prepaid expenses	11,483	2,281	-	13,764
Inventories	71,665	-	-	71,665
Total current assets	244,306	179,712	72,348	496,366
Noncurrent assets:				
Investments - long-term portion	1,324,803	418,288	147,890	1,890,981
Bond sinking fund - restricted	60,000	15,300	-	75,300
Bond reserve fund - restricted	51,500	30,515	-	82,015
Deferred compensation - restricted	56,872	32,662	-	89,534
Total noncurrent assets	1,493,175	496,765	147,890	2,137,830
Capital assets - net of depreciation	1,443,016	1,127,393	-	2,570,409
Total assets	$ 3,180,497	$ 1,803,870	$ 220,238	$ 5,204,605

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable - trade	$ 62,085	$ 23,140	$ -	$ 85,225
Current portion of long-term debt	50,000	7,993	-	57,993
Accrued interest	2,233	14,553	-	16,786
Accrued expenses	9,361	4,355	-	13,716
Customer deposits	16,800	-	1,084	17,884
Total current liabilities	140,479	50,041	1,084	191,604
Long-term liabilities:				
Deferred compensation	56,872	32,662	-	89,534
Note and bonds payable	330,000	949,351	-	1,279,351
Total long-term liabilities	386,872	982,013	-	1,368,885
Net assets:				
Investment in capital assets - net of related debt	1,063,016	170,049	-	1,233,065
Net assets - restricted	111,500	45,815	-	157,315
Net assets - unrestricted	1,478,630	555,952	219,154	2,253,736
Total net assets	2,653,146	771,816	219,154	3,644,116
Total liabilities and net assets	$ 3,180,497	$ 1,803,870	$ 220,238	$ 5,204,605

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

LENOX MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			
	Electric	Water	Cable	Combined Memorandum Only
Operating revenues:				
Current use charges	$ 1,138,629	$ 591,911	$ 158,534	$ 1,889,074
Miscellaneous and rentals	49,125	17,395	-	66,520
Total operating revenues	1,187,754	609,306	158,534	1,955,594
Operating expenses:				
Administrative	111,184	41,040	12,263	164,487
Sales and use taxes	26,093	18,389	8,270	52,752
Payroll and payroll taxes	194,959	103,302	25,672	323,933
Office expense	10,912	5,685	2,537	19,134
Repairs and maintenance	9,094	7,241	601	16,936
Plant expense	617,104	288,613	116,381	1,022,098
Distribution expense	31,268	35,319	11,741	78,328
Bad debts	2,696	460	460	3,616
Depreciation	111,815	74,997	-	186,812
Total operating expenses	1,115,125	575,046	177,925	1,868,096
Operating income	72,629	34,260	(19,391)	87,498
Non-operating revenues/(expenses):				
Interest income	70,516	25,251	6,430	102,197
Interest expense	(12,424)	(47,463)	-	(59,887)
Total non-operating revenues/(expenses)	58,092	(22,212)	6,430	42,310
Changes in net assets before transfers	130,721	12,048	(12,961)	129,808
Transfers from City	884	1,119	230	2,233
Changes in net assets	131,605	13,167	(12,731)	132,041
Net assets, beginning of year	2,653,146	771,816	219,154	3,644,116
Net assets, end of year	$ 2,784,751	$ 784,983	$ 206,423	$ 3,776,157

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

LENOX MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2006			
	Electric	Water	Cable	Combined Memorandum Only
Operating revenues:				
Current use charges	$ 1,074,487	$ 590,072	$ 128,997	$ 1,793,556
Miscellaneous and rentals	840	11,227	-	12,067
Total operating revenues	1,075,327	601,299	128,997	1,805,623
Operating expenses:				
Administrative	124,647	53,762	2,373	180,782
Sales and use taxes	28,658	21,050	6,594	56,302
Payroll and payroll taxes	188,617	108,333	19,109	316,059
Office expense	10,074	8,293	3,368	21,735
Repairs and maintenance	7,328	3,889	-	11,217
Plant expense	561,735	291,460	69,143	922,338
Distribution expense	36,691	32,276	14,591	83,558
Bad debts	1,312	769	652	2,733
Depreciation	106,626	47,715	-	154,341
Total operating expenses	1,065,688	567,547	115,830	1,749,065
Operating income	9,639	33,752	13,167	56,558
Non-operating revenues/(expenses):				
Interest income	60,672	19,373	267	80,312
Interest expense	(13,955)	(26,003)	-	(39,958)
Total non-operating revenues/(expenses)	46,717	(6,630)	267	40,354
Changes in net assets before transfers	56,356	27,122	13,434	96,912
Transfers from City	19,095	947	194,001	214,043
Transfers from Electric Fund	(11,719)	-	11,719	-
Changes in net assets	63,732	28,069	219,154	310,955
Net assets, beginning of year	2,589,414	743,747	-	3,333,161
Net assets, end of year	$ 2,653,146	$ 771,816	$ 219,154	$ 3,644,116

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

LENOX MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			
	Electric	Water	Cable	Combined Memorandum Only
Cash flows from operating activities:				
Cash received from customers	$ 1,189,026	$ 615,157	$ 155,108	$ 1,959,291
Cash payments to suppliers	(828,351)	(397,445)	(150,650)	(1,376,446)
Cash payments for employees, payroll taxes and benefits	(201,916)	(106,473)	(22,686)	(331,075)
Net cash provided by operating activities	158,759	111,239	(18,228)	251,770
Cash flows from noncapital financing activities:				
Transfers from City	884	1,119	230	2,233
Net cash provided from noncapital financing activities	884	1,119	230	2,233
Cash flows from capital and financing activities:				
Proceeds from revenue bonds	-	474,613	-	474,613
Payment on principal	(50,000)	(7,786)	-	(57,786)
Interest paid	(12,908)	(48,041)	-	(60,949)
Purchase of fixed assets	-	(487,251)	-	(487,251)
Net cash used for capital and financing activities	(62,908)	(68,465)	-	(131,373)
Cash flows from investing activities:				
Purchase of investments	(668,370)	(376,430)	(13,501)	(1,058,301)
Proceeds from investments	511,094	222,187	-	733,281
Interest on investments	71,516	25,571	6,430	103,517
Net cash provided (used) by investing activities	(85,760)	(128,672)	(7,071)	(221,503)
Net increase (decrease) in cash	10,975	(84,779)	(25,069)	(98,873)
Cash - beginning of year	60,254	127,626	60,708	248,588
Cash - end of year	$ 71,229	$ 42,847	$ 35,639	$ 149,715

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

LENOX MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2006			
	Electric	Water	Cable	Combined Memorandum Only
Cash flows from operating activities:				
Cash received from customers	$ 1,062,682	$ 597,649	$ 118,441	$ 1,778,772
Cash payments to suppliers	(765,796)	(407,681)	(96,721)	(1,270,198)
Cash payments for employees, payroll taxes and benefits	(186,433)	(107,311)	(19,109)	(312,853)
Net cash provided by operating activities	110,453	82,657	2,611	195,721
Cash flows from noncapital financing activities:				
Transfers from City	19,095	947	194,001	214,043
Transfers from Electric Fund	(11,719)	-	11,719	-
Net cash provided from noncapital financing activities	7,376	947	205,720	214,043
Cash flows from capital and financing activities:				
Proceeds from revenue bonds	-	575,387	-	575,387
Payment on principal	(45,000)	(7,167)	-	(52,167)
Interest paid	(14,134)	(23,348)	-	(37,482)
Purchase of fixed assets	(92,937)	(579,099)	-	(672,036)
Net cash used for capital and financing activities	(152,071)	(34,227)	-	(186,298)
Cash flows from investing activities:				
Purchase of investments	(464,745)	(516,553)	(147,890)	(1,129,188)
Proceeds from investments	429,378	537,982	-	967,360
Interest on investments	60,463	19,253	267	79,983
Net cash provided (used) by investing activities	25,096	40,682	(147,623)	(81,845)
Net increase (decrease) in cash	(9,146)	90,059	60,708	141,621
Cash - beginning of year	69,400	37,567	-	106,967
Cash - end of year	$ 60,254	$ 127,626	$ 60,708	$ 248,588

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, 2007 AND 2006

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2007			
	Electric	Water	Cable	Combined Memorandum Only
Reconciliation of operating income (loss) to net cash provided by operations				
Operating income (loss)	$ 72,629	$ 34,260	$ (19,391)	$ 87,498
Adjustments to reconcile operating income (loss) to net cash provided by operationing activities:				
Depreciation	111,815	74,997	-	186,812
Changes in assets and liabilities:				
Receivables	3,172	5,851	(3,426)	5,597
Prepaid expenses	(551)	(590)	(2,567)	(3,708)
Inventories	(21,859)	-	-	(21,859)
Accounts payable	2,410	(108)	4,170	6,472
Accrued expenses	(6,957)	(3,171)	2,986	(7,142)
Customer deposits	(1,900)	-	-	(1,900)
Net cash provided (used) by operating activities	$ 158,759	$ 111,239	$ (18,228)	$ 251,770

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, 2007 AND 2006

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2006			
	Electric	Water	Cable	Combined Memorandum Only
Reconciliation of operating income to net cash provided by operations				
Operating income	$ 9,639	$ 33,752	$ 13,167	$ 56,558
Adjustments to reconcile operating income to net cash provided by operationing activities:				
Depreciation	106,626	47,714	-	154,340
Changes in assets and liabilities:				
Receivables	(12,645)	(3,650)	(11,640)	(27,935)
Prepaid expenses	(6,535)	233	-	(6,302)
Inventories	(2,472)	-	-	(2,472)
Accounts payable	11,356	3,586	-	14,942
Accrued expenses	2,184	1,022	-	3,206
Customer deposits	2,300	-	1,084	3,384
Net cash provided by operating activities	$ 110,453	$ 82,657	$ 2,611	$ 195,721

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, 2007 AND 2006

ELECTRIC FUND

	2007 Original & Final Budgeted	2007 Actual	2006 Actual
Revenues	$ 1,293,155	$ 1,189,026	$ 1,085,672
Expenses	1,539,733	1,154,990	1,077,280
Excess revenues over/(under) expenses from operations	(246,578)	34,036	8,392
Other revenues	527,118	72,400	68,257
Excess revenues over/(under) expenses	$ 280,540	$ 106,436	$ 76,649

WATER FUND

Revenues	$ 663,375	$ 615,157	$ 604,949
Expenses	789,867	626,378	601,046
Excess revenues over/(under) expenses from operations	(126,492)	(11,221)	3,903
Other revenues	270,406	26,370	20,440
Excess revenues over expenses	$ 143,914	$ 15,149	$ 24,343

CABLE FUND

Revenues	$ 190,100	$ 155,108	$ -
Expenses	173,900	173,336	-
Excess revenues over/(under) expenses from operations	16,200	(18,228)	-
Other revenues	1,400	6,660	-
Excess revenues over expenses	$ 17,600	$ (11,568)	$ -

COMBINED - (MEMORANDUM ONLY)

Revenues	$ 2,146,630	$ 1,959,291	$ 1,690,621
Expenses	2,503,500	1,954,704	1,678,326
Excess revenues over/(under) expenses from operations	(356,870)	4,587	12,295
Other revenues	798,924	105,430	88,697
Excess revenues over/(under) expenses	$ 442,054	$ 110,017	$ 100,992

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, 2007 AND 2006

ELECTRIC FUND

	2006 Original & Final Budgeted	2006 Actual	2005 Actual
Revenues	$ 1,065,241	$ 1,085,672	$ 1,011,206
Expenses	1,358,408	1,077,280	1,020,718
Excess revenues over/(under) expenses from operations	(293,167)	8,392	(9,512)
Other revenues	67,407	68,257	56,204
Excess revenues over/(under) expenses	$ (225,760)	$ 76,649	$ 46,692

WATER FUND

Revenues	$ 595,659	$ 604,949	$ 606,228
Expenses	759,592	601,046	541,623
Excess revenues over/(under) expenses from operations	(163,933)	3,903	64,605
Other revenues	287,693	20,440	10,792
Excess revenues over expenses	$ 123,760	$ 24,343	$ 75,397

COMBINED - (MEMORANDUM ONLY)

Revenues	$ 1,660,900	$ 1,690,621	$ 1,617,434
Expenses	2,118,000	1,678,326	1,562,341
Excess revenues over/(under) expenses from operations	(457,100)	12,295	55,093
Other revenues	355,100	88,697	66,996
Excess revenues over/(under) expenses	$ (102,000)	$ 100,992	$ 122,089

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

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 services for all of 2005. Starting April 1, 2006, the City of Lenox transferred the cable operations, supervision and reporting requirements to the Board of Trustees of Lenox Municipal Utilities. Prior to April 1, 2006, Lenox Municipal Utilities provided billing and collection services for the City of Lenox. Those amounts have been eliminated for financial statement purposes. These financial statements include the reporting requirements of the cable services starting April 1, 2006 as a separate enterprise fund. 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, and starting April 1, 2006 cable services 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 electric, water, and starting April 1, 2006, cable services. 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.

Fund Accounting:

The electric, water and cable funds are operated similar to business enterprises. The intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges. Those costs include depreciation of capital assets and interest expense.

Cash and Cash Equivalents:

For the purpose of the presentation of the statement of cash flows, the electric, water and cable funds do not treat investments, restricted or unrestricted as cash or cash equivalents.

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, 2007 and 2006, 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, 2006 statements may have been reclassified to conform to the December 31, 2007 presentation. Changes in net assets 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.

4. Property and equipment

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

	2007			
Electric Fund	Balance 1/1/07	Additions	Retirements & Disposals	Balance 12/31/07
Buildings and plants	$ 1,846,983	$ -	$ -	$ 1,846,983
Distribution system	842,952	-	-	842,952
Sub-station	98,653	-	-	98,653
Transmission lines	425,994	-	-	425,994
Total	3,214,582	-	-	3,214,582
Less: accumulated depreciation	(1,771,566)	(111,815)	-	(1,883,381)
Property and equipment - net	$ 1,443,016	$ (111,815)	$ -	$ 1,331,201

Water Fund	Balance 1/1/07	Additions	Retirements & Disposals	Balance 12/31/07
Land	$ 32,000	$ -	$ -	$ 32,000
Buildings and plants	886,062	-	-	886,062
Distribution systems	1,237,146	487,251	-	1,724,397
Automotive equipment	58,936	-	-	58,936
Total	2,214,144	487,251	-	2,701,395
Less: accumulated depreciation	(1,086,751)	(74,997)	-	(1,161,748)
Property and equipment - net	$ 1,127,393	$ 412,254	$ -	$ 1,539,647

	2006			
Electric Fund	Balance 1/1/06	Additions	Retirements & Disposals	Balance 12/31/06
Buildings and plants	$ 1,853,585	$ -	$ 6,602	$ 1,846,983
Distribution system	775,085	92,937	25,070	842,952
Sub-station	98,653	-	-	98,653
Transmission lines	425,994	-	-	425,994
Total	3,153,317	92,937	31,672	3,214,582
Less: accumulated depreciation	(1,696,612)	(106,626)	(31,672)	(1,771,566)
Property and equipment - net	$ 1,456,705	$ (13,689)	$ -	$ 1,443,016

4. Property and equipment (continued)

Water Fund	Balance 1/1/06	Additions	Retirements & Disposals	Balance 12/31/06
Land	$ 32,000	$ -	$ -	$ 32,000
Buildings and plants	909,042	-	22,980	886,062
Distribution systems	658,046	579,100	-	1,237,146
Automotive equipment	58,936	-	-	58,936
Total	1,658,024	579,100	22,980	2,214,144
Less: accumulated depreciation	(1,062,016)	(47,715)	(22,980)	(1,086,751)
Property and equipment - net	$ 596,008	$ 531,385	$ -	$ 1,127,393

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, 2007 and 2006 were $26,816 and $26,490, respectively, equal to the required contributions for each year.

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 $15,000 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 5). 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, 2007 and 2006, five employees participated in the plan and contributions amounted to $5,195 and $4,680, respectively. The unfunded balance at December 31, 2007 and 2006 amounted to $220 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:

	2007			
Changes in Net Assets	Electric	Water	Cable	Combined Memorandum Only
- budgetary (cash basis)	$ 106,436	$15,149	(11,568)	$ 110,017
Increase (decrease) in:				
Receivables	(3,172)	(5,851)	3,426	(5,597)
Accrued interest receivable	(1,000)	-	-	(1,000)
Prepaid expenses	551	590	2,567	3,708
Inventories	21,859	-	-	21,859
(Increase)/decrease in:				
Accounts payable	(2,410)	108	(4,170)	(6,472)
Accrued interest payable	484	-	-	484
Accrued expenses	6,957	3,171	(2,986)	7,142
Other current liabilities	1,900	-	-	1,900
Changes in Net Assets - accrual (GAAP basis)	$ 131,605	$ 13,167	$ (12,731)	$ 132,041

	2006		
Changes in Net Assets	Electric	Water	Combined Memorandum Only
- budgetary (cash basis)	$ 76,649	$ 24,343	$ 100,992
Increase (decrease) in:			
Receivables	(12,645)	(3,650)	(16,295)
Accrued interest receivable	(209)	(120)	(329)
Prepaid expenses	(6,535)	233	(6,302)
Inventories	(2,472)	-	(2,472)
(Increase)/decrease in:			
Accounts payable	11,356	3,586	14,942
Accrued interest payable	-	2,655	2,655
Accrued expenses	(4,712)	1,022	(3,690)
Other current liabilities	2,300	-	2,300
Changes in Net Assets - accrual (GAAP basis)	$ 63,732	$ 28,069	$ 91,801

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 2007 and 2006 on the electric revenue notes amounted to $12,908 and $13,955, respectively.

Changes in long-term electric revenue notes are as follows:

	2007			
	Balance 1/1/07	Principal Additions	Principal Repayments	Balance 12/31/07
Electric revenue notes	$ 380,000	$ -	$ 50,000	$ 330,000
	$ 380,000	$ -	$ 50,000	$ 330,000

	2006			
	Balance 1/1/06	Principal Additions	Principal Repayments	Balance 12/31/06
Electric revenue notes	$ 425,000	$ -	$ 45,000	$ 380,000
	$ 425,000	$ -	$ 45,000	$ 380,000

Principal and interest payments on the electric revenue notes mature as follows:

	Principal	Interest
2008	$ 50,000	$ 11,258
2009	50,000	9,670
2010	55,000	7,869
2011	55,000	5,861
2012	60,000	3,645
2013 - 2014	60,000	1,230
	$ 330,000	$ 39,533

The operating agreement provides that the City of Lenox 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.

8. Electric Revenue Notes - continued:

Note payments, 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 rotes 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, 2007 and 2006, 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, 2007 and 2006, electric revenue sinking funds amounted to $52,365 and $60,000, respectively.

9. Water Revenue Bond, Series 2006

On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of $1,150,000 with interest at the rate of 3 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commence on June 1, 2008 and are due annually thereafter until paid in full. There were no interest or principal payments made on the water revenue bonds in 2006. Interest paid in 2007 on the 2006 water revenue bond amounted to $25,312.

Changes in long-term debt for the 2006 water revenue bonds are as follows:

	2007			
	Balance 1/1/07	Principal Additions	Principal Repayments	Balance 12/31/07
2006 water revenue bonds	$ 586,887	$ 463,113	$ -	$ 1,050,000
	$ 586,887	$ 463,113	$ -	$ 1,050,000

	2006			
	Balance 1/1/06	Principal Additions	Principal Repayments	Balance 12/31/06
2006 water revenue bonds	$ -	$ 586,887	$ -	$ 586,887
	$ -	$ 586,887	$ -	$ 586,887

Maturities of the Series 2006 bonds are as follows:

	Principal	Interest
2008	$ 40,000	$ 32,721
2009	40,000	33,075
2010	41,000	31,775
2011	43,000	30,443
2012	44,000	28,795
2013 - 2017	240,000	121,680
2018 - 2022	278,000	80,308
2023 - 2027	324,000	32,175
	$ 1,050,000	$ 390972

9. Water Revenue Bond, Series 2006 - continued

Funds are restricted in conjunction with the 2006 Water Revenue Bond. The bond reserve fund was funded in the amount of $73,000. 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 on the 2006 Water Revenue Bond.

Bond sinking fund payments are required to be used solely for payment of principal and interest on the 2006 Water Revenue Bond. Bond sinking payments are to be funded at no less than one-twelfth of the installment maturing each July 1. At December 31, 2007, sinking funds amounted to $36,500.

10. 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.

Changes in the long-term note payable are as follows:

	2007			
	Balance 1/1/06	Principal Additions	Principal Repayments	Balance 12/31/06
Note payable – Rural Economic and Community Development	$ 381,957	$ -	$ 7,786	$ 374,171
	$ 381,957	$ -	$ 7,786	$ 374,171

	2006			
	Balance 1/1/06	Principal Additions	Principal Repayments	Balance 12/31/06
Note payable – Rural Economic and Community Development	$ 389,124	$ -	$ 7,167	$ 381,957
	$ 389,124	$ -	$ 7,167	$ 381,957

Maturities of long-term debt are as follows:

	Principal	Interest
2008	$ 8,472	$ 22,043
2009	8,980	21,535
2010	9,519	20,996
2011	10,090	20,425
2012	10,695	19,820
2013 - 2017	63,910	88,663
2018 - 2022	85,527	67,048
2023 - 2027	114,455	38,121
2028 - 2029	62,523	28,782
	$ 374,171	$ 327,433

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, 2007 and 2006, 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.

10. Long-term Debt – Water Fund (continued)

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, 2007 and 2006, sinking funds amounted to $15,300 and $15,300, respectively.

11. Net Assets

Net assets generally consist of the following three categories:

Net assets invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, reduced by related outstanding notes, bonds, or other debt.

Restricted net assets – are net assets which result when constraints or restrictions are placed on the use of net assets. The restrictions are generally imposed by external lending sources or by law.

Unrestricted net assets - are those assets not meeting the definition of the two preceding categories. Reservations of unrestricted net assets may be imposed by the management of the Utility, however reservations do not restrict net assets in any manner.

12. 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.

13. Off Balance Sheet and Concentration of Credit Risk

The Utilities receivables are due from customers for electric, water and cable 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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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIALREPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2007, and have issued my report thereon dated January 23, 2008. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 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. 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, the reportable conditions referred to above are also considered to be material weaknesses.

Compliance and Other Matters

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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Lenox Municipal Utilities' operations for the year ended December 31, 2007 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Lenox City Utilities and other parties to whom Lenox Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Certified Public Accountant

Omaha, Nebraska
January 23, 2008

LENOX MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2007

Findings related to the Financial Statements:

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. When duties are properly segregated, the activities of one employee can act as a check on those of another. Essentially one individual currently has total access and control of the accounting functions, including customer billings, receipts, disbursements, as well as the related reconciliations for the various accounting and reporting functions.

   Recommendation - While segregation of duties is difficult with a limited number of office employees, management should continue to regularly review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and Utility officials.

   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 assists 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, 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.

Instances on non-compliance:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

1. Certified budget – Budgeted expenditures for the year ended December 31, 2007 exceeded actual disbursements as required under Chapter 384.20 of the Code of Iowa.

2. Questionable disbursements – No disbursements were noted that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

3. Travel expenses - No disbursements of the Lenox Municipal Utilities money for travel expenses of spouses of Utility officials or employees were noted.

4. 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.

5. Bond coverage - Surety bond coverage of the Utilities officials and employees is in accordance with statutory provisions. The amount of the coverage should continue to be reviewed annually, or more often if needed, to ensure that the coverage is adequate for current operations.

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

7. Deposits and investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities' investment policies were noted.

8. Revenue notes – No violations of the electric and water revenues notes or bonds were noted.

9. Telecommunication services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.