

WINTERSET MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

ADDITIONAL REQUIRED AUDITOR'S REPORTS

Year Ended December 31, 2008

WINTERSET MUNICIPAL UTILITIES

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WINTERSET MUNICIPAL UTILITIES

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------------|-------------------------|---------------------|
| Darin O'Brien | Board Chairman | March 8, 2011 |
| Dave LaGrange | Trustee | March 8, 2013 |
| Nolan Collins | Trustee | March 8, 2015 |
| Stephen Scott Wesselmann | General Manager | Indefinite |
| Michael Wilkinson | Electric Superintendent | Indefinite |
| Steve Benshoof | Water Superintendent | Indefinite |

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Winterset Municipal Utilities
Winterset, Iowa

We have audited the accompanying financial statements of the business type activities of the Winterset Municipal Utilities, as of and for the year ended December 31, 2008. These financial statements are the responsibility of Utilities officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained 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 audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements referred to in the following paragraph were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Winterset Municipal Utilities as of December 31, 2008, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 2009, on our consideration of the Winterset Municipal Utilities' 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 controls 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the Winterset Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, 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 our audit 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.

Drapen, Smolgrasso, Mickelson + Co., P.C.

May 28, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Winterset Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending December 31, 2008. We encourage readers to consider this information in conjunction with the Winterset Municipal Utilities financial statements, which follow.

Financial Highlights

In 2008, the Winterset Municipal Utilities total water fund cash balance decreased by \$341,710 from the previous fiscal year. This decrease is due to needed maintenance and unanticipated expenses. Electric fund cash balance decreased by \$14,536 from the previous fiscal year. This increase is due to needed maintenance.

In 2007, the Winterset Municipal Utilities total water fund cash balance increased by \$400,147 from the previous fiscal year. This increase is due to as yet unused bond proceeds. Electric fund cash balance increased by \$38,769 from the previous fiscal year. This increase is due to slightly increased sales.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows.

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Winterset Municipal Utilities financial activities.

The Winterset Municipal Utilities' financial statements consist of a statement of activities and changes in cash balances. The statement provided information about the activities of the water and electric as a whole, and presents an overall view of the water and electric finances.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statement.

Required supplementary information provided detailed information about the annual budget.

Basis of Accounting

The Winterset Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Winterset Municipal Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. The accounts of the Winterset Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance, receipts and disbursements.

Accordingly, the financial statements do not represent the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitation resulting from the use of cash basis accounting.

Reporting the Winterset Municipal Utilities Financial Activities

The statement of activities and changes in cash balance presents information showing how the Winterset Municipal Utilities cash balances changed during the most recent fiscal year.

The Winterset Municipal Utilities financial activities are displayed in the statement of activities and change in cash balance.

The business type activities of the Winterset Municipal Utilities include the collection of user charges for water and electric.

Fund Financial Statements

The Winterset Municipal Utilities has one kind of funds:

Proprietary funds account for the Winterset Municipal Utilities Enterprise Funds. The Winterset Municipal Utilities maintains two Enterprise Funds to provide separate information for the water and electric funds, considered to be major funds of the Winterset Municipal Utilities.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and change in cash balances.

Government-wide Financial Analysis

As noted earlier, the Winterset Municipal Utilities reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The Winterset Municipal Utilities does not report capital assets or depreciation on those assets as would be required by GAAP.

Winterset Municipal Utilities
Year Ended December 31, 2008

Business Type Activities

| | <u>Water</u> | <u>Electric</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| Operating receipts: | | | |
| Charge for services | \$ 1,333,611 | \$ 4,016,398 | \$ 5,350,009 |
| Operating disbursements: | | | |
| Business type activities | <u>1,224,457</u> | <u>3,615,821</u> | <u>4,840,278</u> |
| Excess of operating receipts over operating disbursements | \$ 109,154 | \$ 400,577 | \$ 509,731 |
| Total non-operating receipts (disbursements): | <u>(450,864)</u> | <u>(415,113)</u> | <u>(865,977)</u> |
| Net change in cash balances | \$ (341,710) | \$ (14,536) | \$ (356,246) |
| Cash balances, beginning of year | <u>1,606,242</u> | <u>1,144,214</u> | <u>2,750,456</u> |
| Cash balances, end of year | <u>\$ 1,264,532</u> | <u>\$ 1,129,678</u> | <u>\$ 2,394,210</u> |

Winterset Municipal Utilities
Year Ended December 31, 2007

| | <u>Enterprise Fund 2007</u> |
|--|-----------------------------|
| Receipts: | |
| Use of money and property | \$ 92,434 |
| Charges for service | 5,475,730 |
| Miscellaneous | <u>165,194</u> |
| Total receipts | <u>\$ 5,733,358</u> |
| Disbursements: | |
| Water | \$ 2,443,621 |
| Electric | <u>4,265,638</u> |
| Total disbursements | <u>\$ 6,709,259</u> |
| Deficiency of receipts under disbursements | \$ (975,901) |
| Other financing sources | <u>1,414,817</u> |
| Excess of receipts and other financing sources under disbursements and other financing uses | \$ 438,916 |
| Balance, beginning of year | <u>2,311,540</u> |
| Balance, end of year | <u>\$ 2,750,456</u> |

Budgetary Highlights

In accordance with the Code of Iowa, the Winterset Municipal Utilities annually adopts a budget following the required public notice and hearing for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures (required public notice followed by a public hearing).

Individual Major Business Type Fund Analysis

Water fund cash decreased by \$341,710 due to needed maintenance and unexpected expenses.

Electric fund cash decreased by \$14,536 due needed maintenance and unexpected expenses.

Debt Administration

At year end, the Winterset Municipal Utilities had approximately \$3,295,000 in bonds compared to \$3,795,000 the last fiscal year. Debt decreased as a result of bond payments during the year.

Economic Factors and Next Year's Budget and Rates

The Winterset Municipal Utility Board considers many factors when setting the 2009 fiscal year budget. The Board has considered our continuing commitment to the Cedar Lake Watershed as well as infrastructure maintenance and improvement.

The Utility Board is also involved in the development of a county lake, which could possibly be another source of water for Winterset.

These factors all contributed when adopting the fiscal year 2009 budget. The budget includes all business type activities, including water and electric expenditures. Steps implemented by the Winterset Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2009 fiscal year budget.

Contacting the Winterset Municipal Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Winterset Municipal Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stephen Wesselmann at (515)462-1422.

FINANCIAL STATEMENTS

WINTERSET MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
Year Ended December 31, 2008

Exhibit A

| | | Program Receipts | |
|---|---------------------|--|----------|
| Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest | |
| Functions/programs: | | | |
| Business type activities: | | | |
| Water | \$ 3,237,573 | \$1,333,611 | \$ - |
| Electric | 4,134,479 | 4,016,398 | 4,492 |
| Total business type activities | \$ 7,372,052 | \$5,350,009 | \$ 4,492 |
| General receipts: | | | |
| Interest on investments | | | |
| Miscellaneous | | | |
| Bond/loan | | | |
| Total general receipts | | | |
| Change in cash basis net assets | | | |
| Cash basis net assets beginning of year | | | |
| Cash basis net assets end of year | | | |

The Notes to Financial Statements are an integral part of this statement.

| <u>Program Receipts</u> Capital Grants, Contributions, and Restricted Interest | <u>Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets</u> |
|--|--|
| | <u>Business Type Activities</u> |
| \$ - | \$(1,903,962) |
| - | (113,589) |
| <u>\$ -</u> | <u>\$(2,017,551)</u> |
| | \$ 45,284 |
| | 107,331 |
| | <u>1,508,690</u> |
| | <u>\$ 1,661,305</u> |
| | \$ (356,246) |
| | <u>2,750,456</u> |
| | <u>\$ 2,394,210</u> |

WINTERSET MUNICIPAL UTILITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended December 31, 2008

Exhibit B

| | Enterprise Fund | | |
|--|----------------------------|----------------------------|----------------------------|
| | Water | Electric | Total |
| OPERATING RECEIPTS: | | | |
| Charge for service | \$ 1,333,611 | \$ 4,016,398 | \$ 5,350,009 |
| TOTAL OPERATING RECEIPTS | <u>\$ 1,333,611</u> | <u>\$ 4,016,398</u> | <u>\$ 5,350,009</u> |
| OPERATING DISBURSEMENTS: | | | |
| Business type activities | \$ 1,224,457 | \$ 3,615,821 | \$ 4,840,278 |
| TOTAL OPERATING DISBURSEMENTS | <u>\$ 1,224,457</u> | <u>\$ 3,615,821</u> | <u>\$ 4,840,278</u> |
| EXCESS OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS | <u>\$ 109,154</u> | <u>\$ 400,577</u> | <u>\$ 509,731</u> |
| NON-OPERATING RECEIPTS (DISBURSEMENTS): | | | |
| Intergovernmental | \$ - | \$ 4,492 | \$ 4,492 |
| Interest on investments | 28,093 | 17,191 | 45,284 |
| Miscellaneous | 25,469 | 81,862 | 107,331 |
| Bond/loan proceeds | 1,508,690 | - | 1,508,690 |
| Debt service | (2,013,116) | (518,658) | (2,531,774) |
| TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS) | <u>\$ (450,864)</u> | <u>\$ (415,113)</u> | <u>\$ (865,977)</u> |
| EXCESS OF RECEIPTS OVER/(UNDER) DISBURSEMENTS | <u>\$ (341,710)</u> | <u>\$ (14,536)</u> | <u>\$ (356,246)</u> |
| OPERATING TRANSFERS | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN CASH BALANCES | <u>\$ (341,710)</u> | <u>\$ (14,536)</u> | <u>\$ (356,246)</u> |
| CASH BALANCES BEGINNING OF YEAR | <u>1,606,242</u> | <u>1,144,214</u> | <u>2,750,456</u> |
| CASH BALANCES END OF YEAR | <u><u>\$ 1,264,532</u></u> | <u><u>\$ 1,129,678</u></u> | <u><u>\$ 2,394,210</u></u> |
| CASH BASIS FUND BALANCES: | | | |
| Reserved for debt service | \$ 131,886 | \$ 2,380 | \$ 134,266 |
| Reserved for bond reserve funds | 462,048 | 290,000 | 752,048 |
| Reserved for improvements | 627,351 | 182,575 | 809,926 |
| Reserved for customer deposits | - | 19,498 | 19,498 |
| Unreserved | 43,247 | 635,225 | 678,472 |
| TOTAL CASH BASIS FUND BALANCES | <u><u>\$ 1,264,532</u></u> | <u><u>\$ 1,129,678</u></u> | <u><u>\$ 2,394,210</u></u> |

The Notes to Financial Statements are an integral part of this statement.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 1. Summary of Significant Accounting Policies

Reporting Entity:

The Winterset Municipal Utilities is a component unit of the City of Winterset, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member board of trustees appointed by the City Council. The Utilities is financially accountable to the City of Winterset. 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 primary government 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 primary government. The Winterset Municipal Utilities has no component units.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utilities' nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

The Electric Fund accounts for the operation and maintenance of the electric system.

Basis of Accounting:

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Cash and Time Deposits:

The Utilities pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Utilities makes disbursements and investments from the combined cash balance. Time deposits are stated at cost which approximates market. All interest is credited to the operating fund.

Restricted Assets:

The Utilities, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and investments) that can be used only to service outstanding debt.

Note 2. Cash and Pooled Investments

The Utilities' deposits in banks at December 31, 2008, 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 ensure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificate 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.

The Utilities' investments consisted solely of certificates of deposit during the year ended December 31, 2008.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 3. Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

| Year Ending <u>December 31,</u> | <u>Revenue Notes</u> | |
|---------------------------------------|----------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 390,000 | \$ 138,748 |
| 2010 | 405,000 | 122,758 |
| 2011 | 425,000 | 105,343 |
| 2012 | 440,000 | 86,430 |
| 2013 | 200,000 | 66,190 |
| 2014-2018 | 985,000 | 216,298 |
| 2019-2020 | <u>450,000</u> | <u>28,680</u> |
| | <u>\$3,295,000</u> | <u>\$ 764,447</u> |

The resolutions providing for the issuance of the water and electric revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate Water Revenue Sinking Account and a separate Electric Revenue Sinking Account for the purpose of making the note principal and interest payments when due.
- c. A reserve account shall be maintained solely for the purpose of paying principal or interest on the notes if the sinking account balance is insufficient to make such payments. The sum of \$200,000 shall be deposited into a Water Revenue Reserve Account from the proceeds of the issue. Thereafter, on the first day of each month, \$5,000 shall be deposited into the water reserve account until the balance reaches \$400,000. The sum of \$247,500 shall be deposited into an Electric Revenue Note Reserve Account from the proceeds of the issue. Thereafter, in

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 3. Notes Payable (continued)

each month, 25% of the required transfer to the sinking fund shall be deposited into this reserve account. Whenever either sum has been reduced by an expenditure, all of the net water and electric revenues after first making the required deposits into the sinking account shall be deposited to these accounts until the original balances are replenished.

- d. After first making the required payments into the sinking account and the required payments, if any, into the reserve account, and the reserve account contains the required balance, the sum of \$5,000 shall be deposited into a Water System Improvement Account on the first day of each month of each year until the sum on deposit is equal to \$300,000. The sum of \$3,500 shall be deposited into an Electric System Improvement Account each month until the sum on deposit is equal to \$200,000.
- e. All funds remaining in the Water Account after the payment of all maintenance and operating expenses and required transfers shall be placed in a Water Revenue Surplus Account. As long as the sinking account and reserve account are fully funded, the remaining portion of the annual accumulation in the surplus account may be made available to the Utilities as the board may from time to time direct.

Note 4. Pension and Retirement Benefits

The 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.

WINTERSET MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2008

Note 4. Pension and Retirement Benefits (continued)

Plan members are required to contribute 3.90% of their annual salary and the Utilities is required to contribute 6.05% of annual payroll. Effective July 1, 2008, the contribution rates changed to 4.1% for members and 6.35% for the Utilities. Contribution requirements are established by state statute. The Utilities' total contribution to IPERS for the years ended December 31, 2008, 2007, and 2006 were \$46,441, \$42,444 and \$40,034 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to employees at December 31, 2008, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$ 44,941 |
| Sick leave | <u>37,010</u> |
| Total | <u>\$ 81,951</u> |

This liability has been computed based on rates of pay as of December 31, 2008. Sick leave time is cancelled when an employee leaves his/her employment with the Utility.

Note 6. Risk Management

The Utilities 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. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 7. Loan Guaranty

On April 1, 1998, the Utilities entered into a Guaranty Agreement with the Central Iowa Power Cooperative (CIPCO). CIPCO executed a loan with the Rural Utilities Service for a rural development loan (RUS loan) in the amount of \$130,000 to be repayable over ten years at zero percent interest, the proceeds of which would be loaned by CIPCO to Merchandising Frontiers, Inc. (MFI) for use in expanding the Company's facilities in Winterset, Iowa. The Winterset Municipal Utilities was in favor of having the loan made by CIPCO to the Company and agreed to guarantee repayment of fifty percent of the loan if MFI defaults on repayment.

Note 8. Jointly Governed Organization

The Utilities participate in a jointly governed organization that provides goods or services to the customers of the Utilities but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating government. The Utility is a member of the Community Advisory Committee of Iowa Rural Water and the Madison County Lake Commission.

Note 9. Joint Venture

The Utilities also participate in a joint venture that provides goods or services to the citizenry of the Utilities and meets the criteria of a joint venture because there is an ongoing financial interest or responsibility by the participating governments. The Utilities are a member of the South Iowa Municipal Electric Cooperative Association Board (SIMECA).

Note 10. Electric Generation Equipment Lease Purchase Agreement

In February 2002, the Utilities entered into a lease purchase agreement to acquire new electric generation equipment with South Iowa Municipal Electric Cooperative Association (SIMECA) with a total cost of \$2,162,266. SIMECA has issued revenue bonds to pay for the project and the Utility is not obligated for any of SIMECA's payments. The Utility is required to make monthly payments to SIMECA for the Utility's portion of the cost of the equipment related to the revenue bonds. The payment schedule is as follows:

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 10. Electric Generation Equipment Lease Purchase Agreement (continued)

| <u>Year ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|--------------------|------------------|--------------------|
| 2008 | \$ 133,000 | \$ 69,766 | \$ 202,766 |
| 2010 | 140,000 | 63,620 | 203,620 |
| 2011 | 147,000 | 56,908 | 203,908 |
| 2012 | 154,000 | 49,644 | 203,644 |
| 2013 | 160,000 | 41,871 | 201,871 |
| 2014 | 169,000 | 33,562 | 202,562 |
| 2015 | 176,000 | 24,676 | 200,676 |
| 2016 | 186,000 | 15,218 | 201,218 |
| 2017 | <u>195,000</u> | <u>5,168</u> | <u>200,168</u> |
| | <u>\$1,460,000</u> | <u>\$360,433</u> | <u>\$1,820,433</u> |

Note 11. Major Customer

A material part of the Utility's Electric and Water charges for services revenue is from five major customers. The loss of any one of these customers may not have a materially adverse effect on the Utility, however, the loss of any combination of these major customers could have a materially adverse effect on the Utility. During the year ended December 31, 2008, these customers accounted for approximately 20% of utility's electric revenue and 12% of the Utility's water revenue.

REQUIRED SUPPLEMENTARY INFORMATION

WINTERSET MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET
 Year Ended December 31, 2008

| | <u>Actual</u> | <u>Less Funds not Required to be Budgeted</u> |
|--|----------------------------|---|
| RECEIPTS: | | |
| Use of money and property | \$ 45,284 | \$ - |
| Intergovernmental | 4,492 | - |
| Charges for services | 5,350,009 | - |
| Miscellaneous | 107,331 | - |
| Total receipts | <u>\$ 5,507,116</u> | <u>\$ -</u> |
| DISBURSEMENTS: | | |
| Business type activities: | | |
| Water | \$ 1,842,074 | \$ - |
| Electric | 4,134,479 | - |
| Total disbursements | <u>\$ 5,976,553</u> | <u>\$ -</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | \$ (469,437) | \$ - |
| OTHER FINANCING SOURCES, NET | <u>113,191</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES | \$ (356,246) | \$ - |
| BALANCE, beginning of year | <u>2,750,456</u> | <u>-</u> |
| BALANCE, end of year | <u><u>\$ 2,394,210</u></u> | <u><u>\$ -</u></u> |

The Notes to Financial Statements are an integral part of this statement.

| Net | Budgeted Amounts | | Final to Net Variance |
|---------------------|---------------------|---------------------|-----------------------------|
| | Original | Final | |
| \$ 45,284 | \$ 50,000 | \$ 50,000 | \$ (4,716) |
| 4,492 | - | - | 4,492 |
| 5,350,009 | 5,275,500 | 5,275,500 | 74,509 |
| 107,331 | 41,900 | 41,900 | 65,431 |
| <u>\$ 5,507,116</u> | <u>\$ 5,367,400</u> | <u>\$ 5,367,400</u> | <u>\$ 139,716</u> |
| | | | |
| \$ 1,842,074 | \$ 2,558,348 | \$ 2,558,348 | \$ 716,274 |
| 4,134,479 | 5,112,521 | 5,112,521 | 978,042 |
| <u>\$ 5,976,553</u> | <u>\$ 7,670,869</u> | <u>\$ 7,670,869</u> | <u>\$ 1,694,316</u> |
| | | | |
| \$ (469,437) | \$ (2,303,469) | \$ (2,303,469) | \$ 1,834,032 |
| | | | |
| <u>113,191</u> | <u>2,098,813</u> | <u>2,098,813</u> | <u>(1,985,622)</u> |
| | | | |
| \$ (356,246) | <u>\$ (204,656)</u> | <u>\$ (204,656)</u> | <u>\$ (151,590)</u> |
| | | | |
| <u>2,750,456</u> | | | |
| | | | |
| <u>\$ 2,394,210</u> | | | |

WINTERSET MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
December 31, 2008

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

The Utilities' budget is submitted with the City of Winterset's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Utilities' budget is included in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

WINTERSET MUNICIPAL UTILITIES
 SCHEDULE OF INDEBTEDNESS
 Year Ended December 31, 2008

| | <u>Date Of Issue</u> | <u>Interest Rates</u> | <u>Schedule 1 Amount Originally Issued</u> |
|-------------------------------|------------------------------|---------------------------|--|
| <u>OBLIGATION</u> | | | |
| Revenue Notes: | | | |
| Water Refunding | 11-01-02 | 2.80-4.80% | \$ 3,515,000 |
| Electric Refunding | 5-01-04 | 2.05-2.70% | 900,000 |
| Water Revenue | 5-15-08 | 3.60-4.25% | 1,535,000 |
| Total | | | |
| Lease Purchase Agreement: | | | |
| Electric Generation Equipment | 03-01-02 | 2.70-5.30% | \$ 2,162,266 |
| Other debt: | | | |
| State Revolving Loan | 06-08-06 | 0% | \$ 196,210 |
| Water Loan Anticipation Notes | 8-16-07 | 4% | \$ 1,355,000 |

See accompanying independent auditor's report.

| <u>Balance Beginning Of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End Of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 2,135,000 | \$ - | \$ 375,000 | \$ 1,760,000 | \$ 91,983 | \$ - |
| 305,000 | - | 305,000 | - | 4,118 | - |
| <u>-</u> | <u>1,535,000</u> | <u>-</u> | <u>1,535,000</u> | <u>18,076</u> | <u>-</u> |
| <u>\$ 2,440,000</u> | <u>\$ 1,535,000</u> | <u>\$ 680,000</u> | <u>\$ 3,295,000</u> | <u>\$ 114,177</u> | <u>\$ -</u> |
| <u>\$ 1,588,000</u> | <u>\$ -</u> | <u>\$ 128,000</u> | <u>\$ 1,460,000</u> | <u>\$ 75,381</u> | <u>\$ -</u> |
| <u>\$ 126,818</u> | <u>\$ -</u> | <u>\$ 126,818</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>\$ 1,355,000</u> | <u>\$ -</u> | <u>\$ 1,355,000</u> | <u>\$ -</u> | <u>\$ 40,499</u> | <u>\$ -</u> |

WINTERSET MUNICIPAL UTILITIES
NOTE MATURITIES
December 31, 2008

Schedule 2

| Year Ending December 31, | Revenue Notes | | | | Total Revenue Notes |
|--------------------------------|--|---------------------|---------------------------------------|---------------------|---------------------------|
| | Water Refunding Issued November 1, 2002 | | Water Refunding Issued May 1, 2004 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2009 | 4.10% | \$ 390,000 | | \$ - | \$ 390,000 |
| 2010 | 4.30% | 405,000 | | - | 405,000 |
| 2011 | 4.45% | 425,000 | | - | 425,000 |
| 2012 | 4.60% | 440,000 | | - | 440,000 |
| 2013 | 4.80% | 100,000 | 3.60% | 100,000 | 200,000 |
| 2014 | | - | 3.75% | 180,000 | 180,000 |
| 2015 | | - | 3.85% | 190,000 | 190,000 |
| 2016 | | - | 3.95% | 195,000 | 195,000 |
| 2017 | | - | 4.05% | 205,000 | 205,000 |
| 2018 | | - | 4.10% | 215,000 | 215,000 |
| 2019 | | - | 4.15% | 220,000 | 220,000 |
| 2020 | | - | 4.25% | 230,000 | 230,000 |
| | | <u>\$ 1,760,000</u> | | <u>\$ 1,535,000</u> | <u>\$ 3,295,000</u> |

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES
INFORMATION REQUIRED BY THE NOTE RESOLUTIONS - UNAUDITED
December 31, 2008

Schedule 3

The following insurance policies were in force at December 31, 2008
(Some amounts may include coverage for the City also.)

| <u>Insurer</u> | <u>Coverage</u> | <u>Amount</u> | <u>Amount</u> |
|--------------------------------------|---|------------------------------------|--------------------|
| Employers Mutual Casualty Company | Property, including buildings, generation equipment and other contents | 4/1/08 - 4/1/09 | \$22,822,983 |
| | 90% Co-insurance Deductible | | 1,000 |
| | General liability - Per occurrence | 4/1/08 - 4/1/09 | 1,000,000 |
| | General aggregate | 4/1/08 - 4/1/09 | 2,000,000 |
| | Products/Operation aggregate | 4/1/08 - 4/1/09 | 2,000,000 |
| | Personal and/or advertising injury | 4/1/08 - 4/1/09 | 1,000,000 |
| | Fire damage | 4/1/08 - 4/1/09 | 100,000 |
| | Medical expense | 4/1/08 - 4/1/09 | 5,000 |
| | Automobile - liability | 4/1/08 - 4/1/09 | 1,000,000 |
| | Boiler and machinery - Property damage Deductible | 4/1/08 - 4/1/09 | 1,000,000 1,000 |
| | Umbrella liability - Per occurrence | 4/1/08 - 4/1/09 | 5,000,000 |
| | Aggregate | 4/1/08 - 4/1/09 | 5,000,000 |
| | Retained limit | 4/1/08 - 4/1/09 | 10,000 |
| | Linebacker declaration - Per occurrence | 4/1/08 - 4/1/09 | 1,000,000 |
| | Aggregate | 4/1/08 - 4/1/09 | 1,000,000 |
| | Retained limit | 4/1/08 - 4/1/09 | 2,500 |
| | Inland Marine - Contractors equipment Deductible | 4/1/08 - 4/1/09 4/1/08 - 4/1/09 | 331,205 250 |
| | Workmen's compensation | 4/1/08 - 4/1/09 | 500,000 |
| | Fidelity bond - Per employee | 4/1/08 - 4/1/09 | 100,000 |
| | Forgery or alteration | 4/1/08 - 4/1/09 | 100,000 |
| Deductible | 4/1/08 - 4/1/09 | 1,000 | |
| Commercial crime - Inside premises | 4/1/08 - 4/1/09 | 100,000 | |
| Outside premises | 4/1/08 - 4/1/09 | 100,000 | |

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES
INFORMATION REQUIRED BY THE NOTE RESOLUTIONS - UNAUDITED
December 31, 2008

Schedule 3
(continued)

Rates in effect at December 31, 2008

1. Electric rates:

| | |
|-----------------|--|
| Residential - | \$6.00 minimum plus: \$.068 per kilowatt hour (kwh) |
| Commercial - | \$15.00 minimum plus: \$.077 per kwh |
| Industrial - | \$25.00 minimum plus: \$.044 per kwh |
| Rural service - | \$6.00 minimum plus: \$.068 per kwh |

2. Water rates:

| | |
|-----------------------|--|
| All service classes - | First 100 cubic feet - minimum \$9.26 Next 400 cubic feet at \$7.57 per 100 cubic feet (ccf) Next 500 cubic feet at \$6.96 per ccf Next 1,000 cubic feet at \$6.48 per ccf Next 48,000 cubic feet at \$5.32 per ccf Balance at \$2.16 per ccf |
|-----------------------|--|

See accompanying independent auditor's report.

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

To the Board of Trustees of the
Winterset Municipal Utilities
Winterset, Iowa

We have audited the financial statements of the business-type activities of Winterset Municipal Utilities as of and for the year ended December 31, 2008, which collectively comprise the Winterset Municipal Utilities' basic financial statements and have issued our report thereon dated May 28, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards generally and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Winterset Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Winterset Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Winterset Municipal Utilities' 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 Winterset Municipal Utilities' 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 Winterset Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Winterset Municipal Utilities' internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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 Winterset Municipal Utilities' 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Winterset Municipal Utilities' 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. 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.

Winterset Municipal Utilities response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Winterset Municipal Utilities response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the management, the audit committee, Board of Trustees, and other parties to whom the Winterset Municipal Utilities may report and is not intended to be and should not be used by anyone other than these specified parties.

Draeger, Smidgrass, Mickelson + Co., P.C.

May 28, 2009

WINTERSET MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended December 31, 2008

Reportable Conditions:

2008-A Segregation of duties - A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Winterset Municipal Utilities.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review the procedures as suggested.

Conclusion - Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2008.
- (2) Certified Budget - Disbursements during the year ended December 31, 2008, did not exceed the amounts budgeted in the Business-type function.
- (3) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (5) Business Transactions - No business transactions between the Utilities and Utilities employees or officials were noted.

- (6) 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.
- (7) Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but was not.

The Utility published all gross salaries as required by an Attorney General's opinion dated April 12, 1979.

- (a) Although minutes of trustee proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Auditor's Recommendation - We recommend the Utility comply with the requirements of 372.13(6) of the Code of Iowa.

Response – The Utility will make every effort to publish the minutes as required.

Conclusion – Response acknowledged.

- (8) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- (9) Revenue Notes - No violations of the resolutions providing for the issuance of the water and electric revenue notes were noted.