

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

**FINANCIAL REPORT**

**December 31, 2011**

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Story City Municipal Electric Utility  
OFFICIALS  
December 31, 2011

**BOARD OF TRUSTEES**

**Term expires**

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

June 1, 2014  
June 1, 2016  
June 1, 2018

**ADMINISTRATOR**

Jeff Ishmael

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Story City Municipal Electric Utility, a component unit of the City of Story City, Iowa, as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Story City Municipal Electric Utility as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012 on our consideration of Story City Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Denman & Company, LLP*

**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
March 2, 2012

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

As management of Story City Municipal Electric Utility, we offer readers of the financial statements this narrative overview and analysis of the Utility's financial performance during the fiscal years ended December 31, 2011 and 2010. Please read it in conjunction with the Utility's financial statements, which follow this section.

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

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

### **Required Financial Statements**

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

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

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

### **Financial Highlights**

- Total assets decreased by \$541,690 to \$9,472,176
- Total noncurrent assets whose use is limited increased by \$307,417 to \$1,540,047
- Total property and equipment decreased by \$282,688 to \$6,999,405
- Total fund equity increased by \$92,316 to \$9,096,496
- Total revenues increased by \$64,990, or 1%, to \$5,188,985
- Expenses increased by \$112,024, or 2% to \$5,058,625

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

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

## **Balance Sheets**

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

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

	<b>December 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Current assets	\$ 932,724	\$ 1,499,143	\$ 1,509,197
Noncurrent assets whose use is limited	1,540,047	1,232,630	1,150,029
Property and equipment	<u>6,999,405</u>	<u>7,282,093</u>	<u>7,683,803</u>
Total assets	<u>\$9,472,176</u>	<u>\$10,013,866</u>	<u>\$10,343,029</u>
Current liabilities	\$ 375,680	\$ 1,009,686	\$ 885,009
Long-term debt, less current maturities	<u>—</u>	<u>—</u>	<u>565,000</u>
Total liabilities	<u>\$ 375,680</u>	<u>\$ 1,009,686</u>	<u>\$ 1,450,009</u>
Invested in capital assets, net of related debt	\$6,999,405	\$ 6,717,093	\$ 6,583,803
Restricted	—	811,521	813,129
Unrestricted	<u>2,097,091</u>	<u>1,475,566</u>	<u>1,496,088</u>
Total fund equity	<u>\$9,096,496</u>	<u>\$ 9,004,180</u>	<u>\$ 8,893,020</u>

As depicted in Table 1, total assets decreased in fiscal year 2011 to \$9,472,176.

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

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

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

	<b>Year ended December 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Electricity revenue	\$5,170,875	\$5,095,293	\$4,380,857
Other revenue	<u>18,110</u>	<u>28,702</u>	<u>81,204</u>
Total revenues	<u>5,188,985</u>	<u>5,123,995</u>	<u>4,462,061</u>
Salaries	505,151	450,722	434,967
Other expenses	4,013,148	3,940,736	3,218,124
Depreciation expense	<u>540,326</u>	<u>555,143</u>	<u>538,503</u>
Total expenses	<u>5,058,625</u>	<u>4,946,601</u>	<u>4,191,594</u>
Operating income	<u>130,360</u>	<u>177,394</u>	<u>270,467</u>
Interest income	4,735	10,675	21,895
Service donated to municipality	(39,929)	(40,226)	(33,427)
Interest expense	<u>(2,850)</u>	<u>(36,683)</u>	<u>(68,090)</u>
Total nonoperating gains (losses)	<u>(38,044)</u>	<u>(66,234)</u>	<u>(79,622)</u>
Change in equity	92,316	111,160	190,845
Total equity, beginning	<u>9,004,180</u>	<u>8,893,020</u>	<u>8,702,175</u>
Total equity, ending	<u>\$9,096,496</u>	<u>\$9,004,180</u>	<u>\$8,893,020</u>

## **Operating and Financial Performance**

The following summarizes the Utility's statements of revenues, expenses and changes in equity between December 31, 2011 and 2010.

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

**Volume:** During the year ended December 31, 2011, the number of Utility customers remained very comparable with 2010. Electricity charges increased \$75,582, or 1% in 2011.

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

### **Other Revenue**

Other revenue decreased to \$18,110 in 2011 compared to \$28,702 in 2010.

### **Expenses**

Approximately 10% of Utility's expenses are for salaries. Total salaries increased \$54,429, or 12% in 2011.

Approximately 80% of Utility's expenses are for other expenses. Total other expenses increased \$72,412, or 2% in 2011. The most significant increase related to the cost of distribution supplies and expenses, including certain contracted services.

Approximately 10% of Utility's expenses relate to depreciation expense. Depreciation expense decreased to \$540,326 in 2011 from \$555,143 in 2010.

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

Nonoperating gains (losses) changed in 2011 to \$(38,044) from \$(66,234) in 2010, primarily due to a decrease in interest expense.

### **Property and Equipment**

At the end of 2011, the Utility had \$6,999,405 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. During fiscal year 2011, \$257,638 was spent to acquire new property and equipment.

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

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

	<b>December 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Production	\$ 7,460,404	\$ 7,460,404	\$ 7,343,344
Transmission	1,813,013	1,813,013	1,813,013
Distribution	<u>6,117,570</u>	<u>5,876,696</u>	<u>5,846,372</u>
Subtotal	15,390,987	15,150,113	15,002,729
Less accumulated depreciation	<u>(8,391,582)</u>	<u>(7,868,020)</u>	<u>(7,318,926)</u>
Property and equipment	<u>\$ 6,999,405</u>	<u>\$ 7,282,093</u>	<u>\$ 7,683,803</u>

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

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

**Story City Municipal Electric Utility  
BALANCE SHEETS**

	<b>December 31</b>	
<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 161,497	\$ 166,392
Assets whose use is limited, required for current liabilities	-	579,100
Customer receivables, less allowance for uncollectible accounts 2011 and 2010 \$15,000	449,492	463,871
Inventories	312,335	282,980
Prepaid insurance	9,400	6,800
Total current assets	932,724	1,499,143
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	1,540,047	900,000
Certificates of deposit	-	100,209
Restricted for payment of long-term debt and interest		
Cash	-	507,911
Certificates of deposit	-	301,000
Interest receivable	-	2,610
	1,540,047	1,811,730
Less assets whose use is limited and that are required for current liabilities	-	579,100
Noncurrent assets whose use is limited	1,540,047	1,232,630
<b>PROPERTY AND EQUIPMENT</b>		
Less accumulated depreciation	15,390,987	15,150,113
Total property and equipment	8,391,582	7,868,020
	6,999,405	7,282,093
Totals	<b>\$ 9,472,176</b>	<b>\$10,013,866</b>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ -	\$ 565,000
Accounts payable	330,705	387,905
Accrued interest	-	14,100
Accrued expenses	44,975	42,681
Total current liabilities	375,680	1,009,686
<b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	6,999,405	6,717,093
Restricted	-	811,521
Unrestricted	2,097,091	1,475,566
Total fund equity	9,096,496	9,004,180
Totals	<b>\$ 9,472,176</b>	<b>\$10,013,866</b>

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

	<b>Year ended December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>REVENUES</b>		
Electricity revenue		
Residential	\$1,859,084	\$1,906,425
Commercial	663,572	669,169
Large power	<u>2,648,219</u>	<u>2,519,699</u>
	5,170,875	5,095,293
Other	18,110	28,702
Total revenues	<u>5,188,985</u>	<u>5,123,995</u>
<b>EXPENSES</b>		
Production	3,808,860	3,827,859
Distribution	854,107	734,956
Administration and general	<u>395,658</u>	<u>383,786</u>
Total expenses	<u>5,058,625</u>	<u>4,946,601</u>
Operating income	<u>130,360</u>	<u>177,394</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Interest income	4,735	10,675
Service donated to municipality	(39,929)	(40,226)
Interest expense	<u>(2,850)</u>	<u>(36,683)</u>
Total nonoperating gains (losses)	<u>(38,044)</u>	<u>(66,234)</u>
Change in fund equity	92,316	111,160
<b>TOTAL FUND EQUITY</b>		
Beginning	9,004,180	8,893,020
Ending	<u>\$9,096,496</u>	<u>\$9,004,180</u>

See Notes to Financial Statements.

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

	<b>Year ended December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$5,145,325	\$5,072,729
Cash paid to suppliers for goods and services	(4,100,009)	(3,826,995)
Cash paid to employees for services	(505,151)	(450,722)
Other operating revenue received	18,110	28,702
Net cash provided by operating activities	558,275	823,714
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(257,638)	(153,433)
Interest paid on long-term debt	(16,950)	(49,683)
Principal payments on long-term debt	(565,000)	(535,000)
Net cash (used in) capital and related financing activities	(839,588)	(738,116)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investments	401,209	800,000
Purchase of investments	-	(601,209)
Interest received	7,345	11,415
Net cash provided by investing activities	408,554	210,206
<b>NET INCREASE IN CASH</b>	127,241	295,804
<b>CASH</b>		
Beginning	1,574,303	1,278,499
Ending	\$1,701,544	\$1,574,303

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

	<b>Year ended December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 130,360	\$ 177,394
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	540,326	555,143
Service donated to municipality	(39,929)	(40,226)
Changes in assets and liabilities		
Decrease in customer receivables	14,379	17,662
(Increase) decrease in inventories	(29,355)	6,304
(Increase) in prepaid insurance	(2,600)	(240)
Increase (decrease) in accounts payable	(57,200)	106,303
Increase in accrued expenses	<u>2,294</u>	<u>1,374</u>
Net cash provided by operating activities	<u>\$ 558,275</u>	<u>\$ 823,714</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 161,497	\$ 166,392
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,540,047	900,000
Restricted for payment of long-term debt and interest, cash	<u>—</u>	<u>507,911</u>
Total per statement of cash flows	<u>\$1,701,544</u>	<u>\$1,574,303</u>

See Notes to Financial Statements.

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

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

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

**Reporting Entity**

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

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

**Measurement Focus and Basis of Accounting**

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

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

**Accounting Standards**

The Utility has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

**Investments and Interest Income**

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

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

Interest income is reported as nonoperating gains.

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

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

**Inventories**

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

**Property and Equipment**

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

**Sales Tax**

The Utility reports electricity revenues subject to sales tax on the net basis which excludes sales tax collections from gross electricity revenues.

**Fund Equity**

Fund equity is presented in the following three components:

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

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

**Restricted**

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

**Unrestricted**

Unrestricted fund equity has no externally imposed restrictions on use.

**Revenues, Expenses and Changes in Equity**

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

**Credit Policy**

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

**Accounting Estimates and Assumptions**

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

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

**NOTE 2 CASH AND INVESTMENTS**

The Utility's deposits at December 31, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

**NOTE 3 PROPERTY AND EQUIPMENT**

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

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Production	\$ 7,460,404	\$4,817,135	\$ 7,460,404	\$4,574,563
Transmission	1,813,013	1,205,480	1,813,013	1,132,959
Distribution	<u>6,117,570</u>	<u>2,368,967</u>	<u>5,876,696</u>	<u>2,160,498</u>
Totals	<u>\$15,390,987</u>	<u>\$8,391,582</u>	<u>\$15,150,113</u>	<u>\$7,868,020</u>

A summary of changes in property and equipment for the year ended December 31, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 7,460,404	\$ —	\$ —	\$ 7,460,404
Transmission	1,813,013	—	—	1,813,013
Distribution	<u>5,876,696</u>	<u>257,638</u>	<u>16,764</u>	<u>6,117,570</u>
Totals	15,150,113	257,638	16,764	15,390,987
Less accumulated depreciation	<u>(7,868,020)</u>	<u>(540,326)</u>	<u>(16,764)</u>	<u>(8,391,582)</u>
Net property and equipment	<u>\$ 7,282,093</u>	<u>\$ (282,688)</u>	<u>\$ —</u>	<u>\$ 6,999,405</u>

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

**NOTE 3 PROPERTY AND EQUIPMENT (continued)**

A summary of changes in property and equipment for the year ended December 31, 2010 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 7,343,344	\$ 117,060	\$ -	\$ 7,460,404
Transmission	1,813,013	-	-	1,813,013
Distribution	<u>5,846,372</u>	<u>36,373</u>	<u>6,049</u>	<u>5,876,696</u>
Totals	15,002,729	153,433	6,049	15,150,113
Less accumulated depreciation	<u>(7,318,926)</u>	<u>(555,143)</u>	<u>(6,049)</u>	<u>(7,868,020)</u>
Net property and equipment	<u>\$ 7,683,803</u>	<u>\$ (401,710)</u>	<u>\$ -</u>	<u>\$ 7,282,093</u>

**NOTE 4 DEFINED BENEFIT PENSION PLAN**

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

At December 31, 2011, regular plan members were required to contribute 5.38% of their annual salary and the Utility was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2011, 2010 and 2009 were \$38,314, \$31,758 and \$29,057, respectively, equal to the required contributions for each year.

**NOTE 5 MAJOR CUSTOMER**

Electricity sales for the years ended December 31, 2011 and 2010 include sales to the following major customer which accounted for 10% or more of the total electricity sales of the Utility for those years.

<u>Customer</u>	<b>Electricity sales</b>	
	<u>Year ended December 31</u> <u>2011</u>	<u>2010</u>
Customer A	\$ <u>921,042</u>	\$ <u>885,259</u>
	<b>Customer receivable</b>	
	<u>December 31</u> <u>2011</u>	<u>2010</u>
Customer A	\$ <u>69,932</u>	\$ <u>76,910</u>

**NOTE 6 UTILITY RISK MANAGEMENT**

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

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

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

Our audits of Story City Municipal Electric Utility for 2011 and 2010 were conducted for the purpose of forming an opinion on the basic financial statements as a whole and our report appears on pages 4-5. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Denman & Company, LLP*

**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
March 2, 2012

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

	<b>Property and equipment</b>			<b>December 31, 2011</b>
	<b>January 1, 2011</b>	<b>Additions</b>	<b>Deletions</b>	
<b>PRODUCTION</b>				
Structures and improvements	\$ 1,530,797	\$ -	\$ -	\$ 1,530,797
Prime movers and generators	<u>5,929,607</u>	<u>-</u>	<u>-</u>	<u>5,929,607</u>
Total production	<u>7,460,404</u>	<u>-</u>	<u>-</u>	<u>7,460,404</u>
<b>TRANSMISSION</b>				
Station equipment	1,569,187	-	-	1,569,187
Overhead interconnection line	<u>243,826</u>	<u>-</u>	<u>-</u>	<u>243,826</u>
Total transmission	<u>1,813,013</u>	<u>-</u>	<u>-</u>	<u>1,813,103</u>
<b>DISTRIBUTION</b>				
Land	5,000	-	-	5,000
Structures and improvements	1,727,099	-	-	1,727,099
Poles and fixtures	255,758	32,850	13,045	275,563
Overhead conductors and devices	363,381	57,655	-	421,036
Underground conductors and devices	1,353,160	21,659	-	1,374,819
Transformers	1,214,369	122,707	2,035	1,335,041
Services and meters	313,341	22,767	-	336,108
Security lights leased	15,285	-	501	14,784
Street lighting system	51,510	-	1,183	50,327
Transportation equipment	<u>577,793</u>	<u>-</u>	<u>-</u>	<u>577,793</u>
Total distribution	<u>5,876,696</u>	<u>257,638</u>	<u>16,764</u>	<u>6,117,570</u>
Totals	<u>\$15,150,113</u>	<u>\$ 257,638</u>	<u>\$ 16,764</u>	<u>\$15,390,987</u>

<b>Accumulated depreciation</b>			
<u>January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2011</u>
\$ 591,731	\$ 56,356	\$ -	\$ 648,087
<u>3,982,832</u>	<u>186,216</u>	<u>-</u>	<u>4,169,048</u>
<u>4,574,563</u>	<u>242,572</u>	<u>-</u>	<u>4,817,135</u>
956,591	62,768	-	1,019,359
<u>176,368</u>	<u>9,753</u>	<u>-</u>	<u>186,121</u>
<u>1,132,959</u>	<u>72,521</u>	<u>-</u>	<u>1,205,480</u>
-	-	-	-
166,953	69,084	-	236,037
185,838	7,970	13,045	180,763
259,118	11,766	-	270,884
410,390	40,920	-	451,310
404,492	43,701	2,035	446,158
241,276	9,742	-	251,018
15,285	-	501	14,784
51,510	-	1,183	56,327
<u>425,636</u>	<u>42,050</u>	<u>-</u>	<u>467,686</u>
<u>2,160,498</u>	<u>225,233</u>	<u>16,764</u>	<u>2,368,967</u>
<u>\$7,868,020</u>	<u>\$ 540,326</u>	<u>\$ 16,764</u>	<u>\$8,391,582</u>

**Story City Municipal Electric Utility  
EXPENSES**

	<b>Year ended December 31</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>PRODUCTION</b>		
Salaries	\$ 123,830	\$ 106,709
Payroll taxes	19,202	16,187
Employee benefits	45,232	46,903
Purchased power	3,242,785	3,329,157
Gas and oil	94,065	59,156
Maintenance	10,190	6,172
Supplies and expenses	30,984	21,003
Depreciation	<u>242,572</u>	<u>242,572</u>
	<u>3,808,860</u>	<u>3,827,859</u>
<b>DISTRIBUTION</b>		
Salaries	213,559	179,446
Payroll taxes	33,117	27,221
Employee benefits	68,296	46,888
Maintenance	6,220	52,911
Supplies and expenses	235,161	115,919
Depreciation	<u>297,754</u>	<u>312,571</u>
	<u>854,107</u>	<u>734,956</u>
<b>ADMINISTRATION AND GENERAL</b>		
Salaries	167,762	164,567
Payroll taxes	26,015	24,965
Employee benefits	18,394	15,577
Insurance	50,807	48,000
Property taxes	4,800	6,000
Audit	9,600	9,500
Other professional fees	4,160	4,420
Contribution	20,000	20,000
Uncollectible accounts	14,699	24,930
Supplies and expenses	86,032	75,590
Less overhead transfer	<u>(6,611)</u>	<u>(9,763)</u>
	<u>395,658</u>	<u>383,786</u>
 Totals	 <u>\$5,058,625</u>	 <u>\$4,946,601</u>

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

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

We have audited the financial statements of Story City Municipal Electric Utility as of and for the year ended December 31, 2011, and have issued our report thereon dated March 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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



**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
March 2, 2012

**Story City Municipal Electric Utility  
SCHEDULE OF FINDINGS  
Year ended December 31, 2011**

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

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

**Story City Municipal Electric Utility  
SCHEDULE OF FINDINGS  
Year ended December 31, 2011**

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

**11-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Utility funds were noted.

**11-II-B TRAVEL EXPENSES**

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

**11-II-C BUSINESS TRANSACTIONS**

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

**11-II-D BOARD MINUTES**

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

**11-II-E DEPOSITS AND INVESTMENTS**

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

**11-II-F 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.