

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

FINANCIAL REPORT

December 31, 2012

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Story City Municipal Electric Utility
OFFICIALS
December 31, 2012

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 financial statements of Story City Municipal Electric Utility, a component unit of the City of Story City, Iowa, as of and for the years ended December 31, 2012 and 2011, which comprise the Utility's basic financial statements as listed in the contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, 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.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013 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

West Des Moines, Iowa
February 8, 2013

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, 2012 and 2011. Please read it in conjunction with the Utility's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$323,312 to \$9,795,488
- Total noncurrent assets whose use is limited decreased by \$454,395 to \$1,085,652
- Total property and equipment increased by \$755,428 to \$7,754,833
- Total fund equity increased by \$240,253 to \$9,336,749
- Total revenues decreased by \$193,946, or 4%, to \$4,995,039
- Expenses decreased by \$339,643, or 7% to \$4,718,982

Financial Analysis of the Utility

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

Balance Sheets

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

Table 1
Condensed Balance Sheets

	December 31		
	2012	2011	2010
Current assets	\$ 955,003	\$ 932,724	\$ 1,499,143
Noncurrent assets whose use is limited	1,085,652	1,540,047	1,232,630
Property and equipment	<u>7,754,833</u>	<u>6,999,405</u>	<u>7,282,093</u>
Total assets	<u>\$9,795,488</u>	<u>\$9,472,176</u>	<u>\$10,013,866</u>
Current liabilities	\$ 458,739	\$ 375,680	\$ 1,009,686
Invested in capital assets, net of related debt	\$7,754,833	\$6,999,405	\$ 6,717,093
Restricted	—	—	811,521
Unrestricted	<u>1,581,916</u>	<u>2,097,091</u>	<u>1,475,566</u>
Total fund equity	<u>\$9,336,749</u>	<u>\$9,096,496</u>	<u>\$ 9,004,180</u>

As depicted in Table 1, total assets increased in fiscal year 2012 to \$9,795,488.

Revenues, Expenses, and Changes in Equity

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

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

	Year ended December 31		
	2012	2011	2010
Electricity revenue	\$4,976,385	\$5,170,875	\$5,095,293
Other revenue	18,654	18,110	28,702
Total revenues	<u>4,995,039</u>	<u>5,188,985</u>	<u>5,123,995</u>
Salaries	489,963	505,151	450,722
Other expenses	3,671,300	4,013,148	3,940,736
Depreciation expense	557,719	540,326	555,143
Total expenses	<u>4,718,982</u>	<u>5,058,625</u>	<u>4,946,601</u>
Operating income	<u>276,057</u>	<u>130,360</u>	<u>177,394</u>
Interest income	6,261	4,735	10,675
Service donated to municipality	(42,065)	(39,929)	(40,226)
Interest expense	—	(2,850)	(36,683)
Total nonoperating gains (losses)	<u>(35,804)</u>	<u>(38,044)</u>	<u>(66,234)</u>
Change in equity	240,253	92,316	111,160
Total equity, beginning	<u>9,096,496</u>	<u>9,004,180</u>	<u>8,893,020</u>
Total equity, ending	<u>\$9,336,749</u>	<u>\$9,096,496</u>	<u>\$9,004,180</u>

Operating and Financial Performance

The following summarizes the Utility's statements of revenues, expenses and changes in equity between December 31, 2012 and 2011.

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

Volume: During the year ended December 31, 2012, the number of Utility customers remained very comparable with 2011. Electricity charges decreased by \$194,490, or 4% in 2012.

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 increased to \$18,654 in 2012 compared to \$18,110 in 2011.

Expenses

Approximately 10% of Utility's expenses are for salaries. Total salaries decreased by \$15,188, or 3% in 2012.

Approximately 80% of Utility's expenses are for other expenses. Total other expenses decreased by \$341,848, or 9% in 2012. The most significant decreases related to purchased power and the cost of distribution supplies and expenses, including certain contracted services.

Approximately 10% of Utility's expenses relate to depreciation expense. Depreciation expense increased to \$557,719 in 2012 from \$540,326 in 2011.

Nonoperating Gains (Losses)

Nonoperating gains (losses) changed in 2012 to \$(35,804) from \$(38,044) in 2011.

Property and Equipment

At the end of 2012, the Utility had \$7,754,833 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 2012, \$1,313,147 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

	December 31		
	2012	2011	2010
Production	\$ 8,169,546	\$ 7,460,404	\$ 7,460,404
Transmission	1,813,013	1,813,013	1,813,013
Distribution	<u>6,714,495</u>	<u>6,117,570</u>	<u>5,876,696</u>
Subtotal	16,697,054	15,390,987	15,150,113
Less accumulated depreciation	<u>(8,942,221)</u>	<u>(8,391,582)</u>	<u>(7,868,020)</u>
Property and equipment	<u>\$ 7,754,833</u>	<u>\$ 6,999,405</u>	<u>\$ 7,282,093</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**

	December 31	
ASSETS	2012	2011
CURRENT ASSETS		
Cash	\$ 232,587	\$ 161,497
Customer receivables, less allowance for uncollectible accounts 2012 and 2011 \$15,000	387,677	449,492
Inventories	322,139	312,335
Prepaid insurance	12,600	9,400
Total current assets	955,003	932,724
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,085,652	1,540,047
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	16,697,054	15,390,987
Total property and equipment	8,942,221	8,391,582
	7,754,833	6,999,405
Totals	\$ 9,795,488	\$ 9,472,176
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 419,262	\$ 330,705
Accrued expenses	39,477	44,975
Total current liabilities	458,739	375,680
FUND EQUITY		
Invested in capital assets, net of related debt	7,754,833	6,999,405
Unrestricted	1,581,916	2,097,091
Total fund equity	9,336,749	9,096,496
Totals	\$ 9,795,488	\$ 9,472,176

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

	Year ended December 31	
	2012	2011
REVENUES		
Electricity revenue		
Residential	\$1,770,725	\$1,859,084
Commercial	661,678	663,572
Large power	<u>2,543,982</u>	<u>2,648,219</u>
	4,976,385	5,170,875
Other	18,654	18,110
Total revenues	<u>4,995,039</u>	<u>5,188,985</u>
EXPENSES		
Production	3,647,633	3,808,860
Distribution	676,818	854,107
Administration and general	<u>394,531</u>	<u>395,658</u>
Total expenses	<u>4,718,982</u>	<u>5,058,625</u>
Operating income	<u>276,057</u>	<u>130,360</u>
NONOPERATING GAINS (LOSSES)		
Interest income	6,261	4,735
Service donated to municipality	(42,065)	(39,929)
Interest expense	<u>—</u>	<u>(2,850)</u>
Total nonoperating gains (losses)	<u>(35,804)</u>	<u>(38,044)</u>
Change in fund equity	240,253	92,316
TOTAL FUND EQUITY		
Beginning	9,096,496	9,004,180
Ending	<u>\$9,336,749</u>	<u>\$9,096,496</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$4,996,135	\$5,145,325
Cash paid to suppliers for goods and services	(3,601,245)	(4,100,009)
Cash paid to employees for services	(489,963)	(505,151)
Other operating revenue received	<u>18,654</u>	<u>18,110</u>
Net cash provided by operating activities	<u>923,581</u>	<u>558,275</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,313,147)	(257,638)
Interest paid on long-term debt	-	(16,950)
Principal payments on long-term debt	<u>-</u>	<u>(565,000)</u>
Net cash (used in) capital and related financing activities	<u>(1,313,147)</u>	<u>(839,588)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	-	401,209
Interest received	<u>6,261</u>	<u>7,345</u>
Net cash provided by investing activities	<u>6,261</u>	<u>408,554</u>
NET INCREASE (DECREASE) IN CASH	(383,305)	127,241
CASH		
Beginning	<u>1,701,544</u>	<u>1,574,303</u>
Ending	<u>\$1,318,239</u>	<u>\$1,701,544</u>

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

	Year ended December 31	
	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 276,057	\$ 130,360
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	557,719	540,326
Service donated to municipality	(42,065)	(39,929)
Changes in assets and liabilities		
Decrease in customer receivables	61,815	14,379
(Increase) in inventories	(9,804)	(29,355)
(Increase) in prepaid insurance	(3,200)	(2,600)
Increase (decrease) in accounts payable	88,557	(57,200)
Increase (decrease) in accrued expenses	<u>(5,498)</u>	<u>2,294</u>
Net cash provided by operating activities	<u>\$ 923,581</u>	<u>\$ 558,275</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 232,587	\$ 161,497
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	<u>1,085,652</u>	<u>1,540,047</u>
Total per statement of cash flows	<u>\$1,318,239</u>	<u>\$1,701,544</u>

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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

Reporting Entity

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

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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, 2012 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, 2012</u>		<u>December 31, 2011</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Production	\$ 8,169,546	\$5,067,821	\$ 7,460,404	\$4,817,135
Transmission	1,813,013	1,278,000	1,813,013	1,205,480
Distribution	<u>6,714,495</u>	<u>2,596,400</u>	<u>6,117,570</u>	<u>2,368,967</u>
Totals	<u>\$16,697,054</u>	<u>\$8,942,221</u>	<u>\$15,390,987</u>	<u>\$8,391,582</u>

A summary of changes in property and equipment for the year ended December 31, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Production	\$ 7,460,404	\$ 709,142	\$ -	\$ 8,169,546
Transmission	1,813,013	-	-	1,813,013
Distribution	<u>6,117,570</u>	<u>604,005</u>	<u>7,080</u>	<u>6,714,495</u>
Totals	15,390,987	1,313,147	7,080	16,697,054
Less accumulated depreciation	<u>(8,391,582)</u>	<u>(557,719)</u>	<u>(7,080)</u>	<u>(8,942,221)</u>
Net property and equipment	<u>\$ 6,999,405</u>	<u>\$ 755,428</u>	<u>\$ -</u>	<u>\$ 7,754,833</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, 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>

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, 2012, regular plan members were required to contribute 5.78% of their annual salary and the Utility was required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2012, 2011 and 2010 were \$41,345, \$38,314 and \$31,758, respectively, equal to the required contributions for each year.

NOTE 5 MAJOR CUSTOMER

Electricity sales for the years ended December 31, 2012 and 2011 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>	Electricity sales	
	<u>Year ended December 31</u> <u>2012</u>	<u>2011</u>
Customer A	\$ <u>851,187</u>	\$ <u>921,042</u>
	Customer receivable	
	December 31	
<u>Customer</u>	<u>2012</u>	<u>2011</u>
Customer A	\$ <u>61,406</u>	\$ <u>69,932</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 2012 and 2011 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.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 8, 2013

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

	Property and equipment			
	January 1, 2012	Additions	Deletions	
PRODUCTION				
Structures and improvements	\$ 1,530,797	\$ -	\$ -	\$ 1,530,797
Prime movers and generators	5,929,607	643,400	-	6,573,007
Miscellaneous power plant equipment	-	65,742	-	65,742
Total production	<u>7,460,404</u>	<u>709,142</u>	<u>-</u>	<u>8,169,546</u>
TRANSMISSION				
Station equipment	1,569,187	-	-	1,569,187
Overhead interconnection line	243,826	-	-	243,826
Total transmission	<u>1,813,013</u>	<u>-</u>	<u>-</u>	<u>1,813,013</u>
DISTRIBUTION				
Land	5,000	-	-	5,000
Structures and improvements	1,727,099	-	-	1,727,099
Poles and fixtures	275,563	4,972	1,456	279,079
Overhead conductors and devices	421,036	-	-	421,036
Underground conductors and devices	1,374,819	38,727	-	1,413,546
Transformers	1,335,041	52,361	5,369	1,382,033
Services and meters	336,108	16,314	-	352,422
Security lights leased	14,784	-	-	14,784
Street lighting system	50,327	377,672	255	427,744
Transportation equipment	577,793	113,959	-	691,752
Total distribution	<u>6,117,570</u>	<u>604,005</u>	<u>7,080</u>	<u>6,714,495</u>
Totals	<u>\$15,390,987</u>	<u>\$1,313,147</u>	<u>\$ 7,080</u>	<u>\$16,697,054</u>

Accumulated depreciation			
January 1, 2012	Additions	Deletions	December 31, 2012
\$ 648,087	\$ 53,198	\$ -	\$ 701,285
4,169,048	196,940	-	4,365,988
-	548	-	548
<u>4,817,135</u>	<u>250,686</u>	<u>-</u>	<u>5,067,821</u>
1,019,359	62,767	-	1,082,126
186,121	9,753	-	195,874
<u>1,205,480</u>	<u>72,520</u>	<u>-</u>	<u>1,278,000</u>
-	-	-	-
236,037	69,084	-	305,121
180,763	8,320	1,456	187,627
270,884	12,631	-	283,515
451,310	41,825	-	493,135
446,158	40,735	5,369	481,524
251,018	10,328	-	261,346
14,784	-	-	14,784
50,327	11,952	255	62,024
467,686	39,638	-	507,324
<u>2,368,967</u>	<u>234,513</u>	<u>7,080</u>	<u>2,596,400</u>
<u>\$8,391,582</u>	<u>\$ 557,719</u>	<u>\$ 7,080</u>	<u>\$8,942,221</u>

**Story City Municipal Electric Utility
EXPENSES**

	<u>Year ended December 31</u>	
	<u>2012</u>	<u>2011</u>
PRODUCTION		
Salaries	\$ 128,256	\$ 123,830
Payroll taxes	20,965	19,202
Employee benefits	47,718	45,232
Purchased power	2,980,621	3,242,785
Gas and oil	147,633	94,065
Maintenance	16,614	10,190
Supplies and expenses	55,140	30,984
Depreciation	<u>250,686</u>	<u>242,572</u>
	<u>3,647,633</u>	<u>3,808,860</u>
DISTRIBUTION		
Salaries	189,788	213,559
Payroll taxes	31,025	33,117
Employee benefits	44,434	68,296
Maintenance	28,582	6,220
Supplies and expenses	75,956	235,161
Depreciation	<u>307,033</u>	<u>297,754</u>
	<u>676,818</u>	<u>854,107</u>
ADMINISTRATION AND GENERAL		
Salaries	171,919	167,762
Payroll taxes	28,104	26,015
Employee benefits	19,152	18,394
Insurance	50,826	50,807
Property taxes	5,400	4,800
Audit	9,700	9,600
Other professional fees	4,080	4,160
Contribution	20,000	20,000
Uncollectible accounts	11,384	14,699
Supplies and expenses	80,120	86,032
Less overhead transfer	<u>(6,154)</u>	<u>(6,611)</u>
	<u>394,531</u>	<u>395,658</u>
Totals	<u>\$4,718,982</u>	<u>\$5,058,625</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, 2012, and have issued our report thereon dated February 8, 2013. 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, 2012 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
February 8, 2013

**Story City Municipal Electric Utility
SCHEDULE OF FINDINGS
Year ended December 31, 2012**

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, 2012**

Part II—Findings Related to Required Statutory Reporting

12-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Utility funds were noted.

12-II-B TRAVEL EXPENSES

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

12-II-C BUSINESS TRANSACTIONS

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

12-II-D BOARD MINUTES

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

12-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.

12-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.