

**Anita Municipal Utilities
Independent Auditors' Report
Basic Financial Statements and
Supplementary Information
Schedule of Findings**

June 30, 2005

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**Anita Municipal Utilities
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jack Retz	Trustee	July 2005
Larry Phillips	Trustee	July 2007
Lee Poeppe	Trustee	July 2009
Mark Schultz	Superintendent	Indefinite
Diane Harrison	Secretary	Indefinite

September 30, 2005

Independent Auditors' Report

To the Board of Trustees
Anita Municipal Utilities
Anita, IA

We have audited the accompanying financial statement of the Anita Municipal Utilities, as of and for the years ended June 30, 2005. This financial statement is the responsibility of the Utilities' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Anita Municipal Utilities is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Anita that is attributable to the transactions of the Utilities.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Anita Municipal Utilities at June 30, 2005, 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 September 30, 2005, on our consideration of the Anita Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Continued...

September 30, 2005
Anita Municipal Utilities
Independent Auditors' Report

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 8, and pages 17 through 19, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statement. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Anita Municipal Utilities provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statement, which follows.

2005 FINANCIAL HIGHLIGHTS

- The Utilities' total receipts decreased 3.0%, or approximately \$27,498, from fiscal 2004 to fiscal 2005.
- The Utilities' total disbursements increased approximately 0.6%, or \$4,754, from fiscal 2004 to fiscal 2005. The increase is due to demolition and clean-up of the lumber yard lot, work on the #3 well & on pump, services at the industrial park and purchase of a replacement bucket truck.
- The Utilities' total cash basis net assets increased approximately 4.0%, or \$50,995, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

The Anita Municipal Utilities has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Anita Municipal Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Anita Municipal Utilities' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Anita Municipal Utilities' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Anita Municipal Utilities' receipts and disbursements and whether the Utilities' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Funds. In addition, the Schedule of Indebtedness provides details of the Utilities' debt at June 30, 2005.

FINANCIAL ANALYSIS OF THE ANITA MUNICIPAL UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Anita Municipal Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balances at year end. Over time, readers of the financial statement are able to determine the Anita Municipal Utilities' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, metered electric sales, connect/disconnect fees, rent for space on the water tower and miscellaneous fees. Anita Municipal Utilities also collects sewer fees on behalf of the City of Anita. In July 2004 sewer fee remittance was changed from "collected in July, remitted in August" to "collected in July, remitted in July". As a result fiscal year 2005 shows 13 months sewer collections remitted to the City. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2005 and June 30, 2004 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2005	2004
Receipts		
:		
Use of money and property	34,735	40,138
Charges for service	700,249	654,229
Sewer fees collected for City	85,435	81,119
Miscellaneous	66,312	138,743
Total receipts	886,731	914,229
Disbursements:		
Plant operation and maintenance	402,146	391,957
Distribution operation, maintenance and generator	170,840	154,701
Accounting and collection	47,959	36,071
Administration	12,581	57,189
Sewer fees remitted to City	92,472	81,119
Payment in lieu of taxes remitted to City	32,368	31,375
Debt service:		
Principal redeemed	40,000	40,000
Interest paid	37,070	38,570
Paying agent fee	300	
Total disbursements	835,736	830,982
Net change in cash basis net assets	50,995	83,247
Cash basis net assets beginning of year	1,270,190	1,186,943
Cash basis net assets end of year	1,321,185	1,270,190

DEBT ADMINISTRATION

At June 30, 2005, the Anita Municipal Utilities had \$700,000 of revenue note debt outstanding. The revenue bonds were issued May 1, 2002.

ECONOMIC FACTORS

The Anita Municipal Utilities assesses its billing rates for electricity on a monthly basis. The billing rate has been broken down into four components: product cost, operation and maintenance, emergency fund and bond payments. Product cost and bond payments are automatically analyzed by the computerized billing system. Operation and maintenance and emergency fund are assessed by the Board annually. Based on the results of the component analysis, the energy adjustment rate is recomputed by the billing system to meet current needs. Current economic conditions beyond the Anita Municipal Utilities Trustees' control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- the need to constantly maintain facilities, vehicles and machinery.
- the need to comply with federal and state regulations for the production of water and well-head protection, as well as the purchase and production of electricity.
- the fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Anita 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 Anita Municipal Utilities, 828 Main Street, PO Box 426, Anita, Iowa 50020.

Basic Financial Statement

**Anita Municipal Utilities
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets
As of and For the Year Ended June 30, 2005**

Operating receipts:	
Charges for services	\$ 700,249
Miscellaneous	61,462
Total operating revenues	<u>761,711</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	402,146
Distribution operation and maintenance	170,840
Accounting and collection	47,959
Administration	12,581
Total operating disbursements	<u>633,526</u>
Excess of operating receipts over operating disbursements	128,185
Non-operating receipts (disbursements):	
Interest on investments	34,735
Sale of equipment	4,850
Sewer fees collected for City	85,435
Sewer fees remitted to City	(92,472)
Payment in lieu of taxes remitted to City	(32,368)
Debt service	(77,370)
Total non-operating receipts (disbursements)	<u>(77,190)</u>
Change in cash basis net assets	50,995
Cash basis net assets beginning of year	<u>1,270,190</u>
Cash basis net assets end of year	<u>\$ 1,321,185</u>
Cash Basis Net Assets	
Restricted for:	
Reserves, improvements and extensions	\$ 182,715
Bond principal and interest	13,337
Customer water deposits	15,031
Total restricted net assets	<u>211,083</u>
Unrestricted	<u>1,110,102</u>
Total cash basis net assets	<u>\$ 1,321,185</u>

See accompanying notes to financial statements

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2005

NOTE 1 Summary of Significant Accounting Policies

A. Reporting Entity

The Anita Municipal Utilities is a component unit of the City of Anita, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Utilities is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria. The Utilities provides water and electric utilities for the residents of the City of Anita and collects sewer fees on behalf of the City of Anita.

B. Basis of Presentation

The accounts of the Utilities are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise 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 an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

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

D. Restricted Assets and Net Assets

The Utility has funds set aside for bond principal and interest payments, reserve and improvement funds and customer water deposits which are classified as restricted.

E. Budgets and Budgetary Accounting

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

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2005

NOTE 2 Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2005 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 depositories to insure 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; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

NOTE 3 Revenue Notes

Annual debt service requirements to maturity for revenue note indebtedness is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2006	4.20 %	\$ 45,000	35,470	80,470
2007	4.40 %	45,000	33,580	78,580
2008	4.60 %	50,000	31,600	81,600
2009	4.80 %	50,000	29,300	79,300
2010	4.90 %	55,000	26,900	81,900
2011-2015	5.00-5.40 %	310,000	91,160	401,160
2016-2017	5.50-5.60 %	145,000	12,250	157,250
		\$ 700,000	260,260	960,260

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earning of the funds.
- b. Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the note principal and interest payments when due.
- c. At the time of delivery of the notes, \$82,000 shall be deposited into a principal and interest reserve account. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.
- d. At the time of delivery of the notes, \$50,000 shall be deposited into an improvement and extension account. These funds shall be used if there is a deficiency in the sinking account, reserve account or to pay for capital improvements and extensions to the Utility.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2005**

The Utilities has complied with these provisions.

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.

Plan members are required to contribute 3.70% of their annual salary and the Department is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Department's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$9,828, \$9,459, and \$9,115, respectively, equal to the required contributions for each year.

NOTE 5 Compensated Absences

Anita Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick 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 at June 30, 2005 is as follows:

Type of Benefit	Amount
Vacation	\$ 10,112
Sick leave	15,888
	\$ 26,000

Sick leave is payable when used or upon retirement or termination. If paid upon retirement or termination, an employee receives one-half of accumulated sick leave hours paid at the current effective hourly rate for that employee.

This liability has been computed based on rates of pay in effect at June 30, 2005.

NOTE 6 Risk Management

The Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2005

boiler/machinery. There have been no reductions in insurance coverage from prior years.

NOTE 6 Risk Management - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$24,209.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claim shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2005

receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

NOTE 6 Risk Management – Continued

The Utilities also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The Utilities assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 Deficit Fund Balance

The Water Account had a deficit balance of \$656 at June 30, 2005. The Utilities is considering raising water rates to help eliminate this deficit.

Required Supplementary Information

Anita Municipal Utilities
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances – Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2005

	Actual	Less Funds Not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 34,735	-	34,735
Charges for service	785,684	85,435	700,249
Miscellaneous	66,312	32,368	33,944
Total receipts	886,731	117,803	768,928
Disbursements:			
Business type activities	835,736	124,840	710,896
Change in cash basis net assets	50,995	(7,037)	58,032
Cash basis net assets beginning of year	1,270,190	-	1,270,190
Cash basis net assets end of year	\$ 1,321,185	(7,037)	1,328,222

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Net Variance
Original	Final	
38,000	38,000	(3,265)
746,622	746,622	(46,373)
-	-	33,944
<u>784,622</u>	<u>784,622</u>	<u>(15,694)</u>
<u>914,000</u>	<u>999,000</u>	<u>288,104</u>
(129,378)	(214,378)	272,410
<u>1,216,971</u>	<u>1,216,971</u>	<u>53,219</u>
<u>1,087,593</u>	<u>1,002,593</u>	<u>325,629</u>

Anita Municipal Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The Anita Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$85,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

**Anita Municipal Utilities
Other Supplementary Information**

Anita Municipal Utilities
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Enterprise Funds
Year Ended June 30, 2005

	Water	Electric	Meter Deposits	Total
Operating receipts:				
Charges for service:				
Sale of water	\$ 85,458	-	-	85,458
Sale of electricity	-	611,191	-	611,191
Rental	3,600	-	-	3,600
	89,058	611,191	-	700,249
Miscellaneous:				
Refunds and reimbursements	6,431	43,327	-	49,758
Customer deposits	-	-	6,270	6,270
Miscellaneous	1,476	3,958	-	5,434
	7,907	47,285	6,270	61,462
Total operating receipts	96,965	658,476	6,270	761,711
Operating disbursements:				
Business type activities:				
Plant operation and maintenance:				
Salaries and benefits	46,888	106,361	-	153,249
Purchase of power	-	174,355	-	174,355
Insurance	8,070	16,140	-	24,210
Supplies	3,027	20,953	-	23,980
Repairs	14,846	-	-	14,846
Miscellaneous	9,618	1,888	-	11,506
	82,449	319,697	-	402,146
Distribution:				
Salaries and benefits	26,584	53,125	-	79,709
Supplies	13,067	8,949	-	22,016
Equipment	-	69,115	-	69,115
	39,651	131,189	-	170,840
Accounting and collecting:				
Salaries and benefits	5,369	10,738	-	16,107
Office supplies	6,869	9,003	-	15,872
Sales tax paid	2,563	5,986	-	8,549
Miscellaneous	227	4,108	3,096	7,431
	15,028	29,835	3,096	47,959
Administration	3,707	8,874	-	12,581
Total operating disbursements	140,835	489,595	3,096	633,526
Excess (deficiency) of operating receipts over (under) operating disbursements	(43,870)	168,881	3,174	128,185

Anita Municipal Utilities
Combining Schedule of Cash Receipts, Disbursements

**Schedule 1
Continued**

**and Changes in Cash Basis Net Assets
Enterprise Funds
Year Ended June 30, 2005**

	Water	Electric	Meter Deposits	Total
Non-operating receipts (disbursements):				
Interest on investments	-	34,735	-	34,735
Sewer fees collected for the City	-	85,435	-	85,435
Sewer fees remitted to the City	-	(92,472)	-	(92,472)
Sale of assets	-	4,850	-	4,850
Payment in lieu of taxes remitted to the City	-	(32,368)	-	(32,368)
Debt service:				
Principal redeemed	-	(40,000)	-	(40,000)
Interest paid	-	(37,070)	-	(37,070)
Administration fee	-	(300)	-	(300)
Total non-operating receipts (disbursements)	-	(77,190)	-	(77,190)
Excess (deficiency) of receipts over (under) disbursements	(43,870)	91,691	3,174	50,995
Operating transfers in (out):				
Enterprise:				
Water	15,000	-	-	15,000
Electric	-	(15,000)	-	(15,000)
Total operating transfers in (out)	15,000	(15,000)	-	-
Net change in cash basis net assets	(28,870)	76,691	3,174	50,995
Cash basis net assets beginning of year	28,214	1,230,119	11,857	1,270,190
Cash basis net assets end of year	\$ (656)	1,306,810	15,031	1,321,185

See Accompanying Independent Auditors' Report

**Anita Municipal Utilities
Schedule of Indebtedness
Year Ended June 30, 2005**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes: Electric	May 1, 2002	4.00 – 5.60 %	\$ 820,000

See Accompanying Independent Auditors' 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>740,000</u>	<u>-</u>	<u>40,000</u>	<u>700,000</u>	<u>37,070</u>

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters**

September 30, 2005

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

To the Board of Trustees of the
Anita Municipal Utilities

We have audited the accompanying financial statement of the Anita Municipal Utilities as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Anita Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect Anita Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness.

Continued. . .

September 30, 2005
Anita Municipal Utilities
Independent Auditors' Report on Compliance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anita 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Anita Municipal Utilities and other parties to whom the Utilities may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Anita Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 Monthly Financial Statements – During the current year, the Utilities prepared monthly Treasurer Reports which reported receipts and disbursements in total for the month, including internal transfers. This report also matches the reconciled bank balances each month.

Recommendation – The Utilities should prepare detailed monthly financial statements which classify receipts by source and disbursements by activity. In addition, a year-to-date financial statement should be prepared at fiscal year-end.

Response – We are presently classifying receipts by source and disbursements by activity and will prepare a year-end financial statement.

Conclusion – Response accepted.

I-B-05 Accounting Policies and Procedures Manual – The Utilities does not have an accounting policies and procedures manual. A policies and procedures manual would aid in training additional or replacement personnel and help achieve uniformity in accounting and in the application of policies and procedures. In addition, it would record decisions so they will not have to be made each time the same, or a similar, situation arises.

Recommendation – An accounting policies and procedures manual should be developed.

Response – A manual is being developed and is a loose collection of notes, reminders and files at the moment. Due to major changes in our tariff and billing program occasioned by the Iowa Utilities Board, many procedures are being changed. Once these changes are completed, our procedures will be verified and organized into a manual.

Conclusion – Response accepted.

I-C-05 Personnel Manual – The Utility currently provides each employee a job description. However, the Utility has not documented its policy regarding payment of benefits upon termination.

Recommendation – The Utility should document its personnel policies and distribute a copy to all employees. An office copy should be accessible for reference.

Response – We will develop a personnel manual.

Conclusion – Response accepted.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Part I: Findings Related to the Financial Statements- Continued:

REPORTABLE CONDITIONS - Continued:

I-D-05 Sales Tax – Local option taxes were not remitted properly during the current fiscal year due to incorrect calculations related to the reduced sales tax on electricity. Customer utility bills appear to reflect the proper calculation for local option taxes.

Recommendation – The Utility should correct their calculation on the sales tax returns so that the correct amount of local option sales tax is remitted.

Response – We will investigate the problem and correct our calculations.

Conclusion – Response accepted.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - The budget certified by the City of Anita includes an amount budgeted for the Anita Municipal Utilities. Disbursements during the year ended June 30, 2005 did not exceed the amount budgeted.

II-C-05 Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

Several disbursements were made during the year to the local newspaper, The Anita Tribune, for advertisements for various community, school and other activities.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-D-05 Travel Expense - No disbursements of Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

II-E-05 Business Transactions - No business transactions between the Utilities and Utilities' officials or employees were noted.

II-F-05 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Part II: Other Findings Related to Statutory Reporting (continued):

- II-G-05 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

The Utilities did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978. In addition, total receipts for the Utilities were not included with the published minutes.

Recommendation - The Utilities should publish gross salaries as required and include total receipts in published minutes.

Response - We will do this in the future.

Conclusion - Response accepted.

- II-H-05 Deposits and Investments - The Utilities has not adopted a written investment policy.

Recommendation - The Utilities should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response - We will do this.

Conclusion - Response accepted.

- II-I-05 Revenue Notes - The Utilities has complied with the electric revenue note resolution requirements for the year ended June 30, 2005.

- II-J-05 Excess Balances - The balance in the Electricity Account at June 30, 2005 was in excess of the account disbursements for the year.

Recommendation - The Utilities should consider the necessity of maintaining the substantial balance, and where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response - We are planning to utilize funds from the Account to pay for possible future improvements and construction.

Conclusion - Response accepted.

- II-K-05 Financial Condition - The Water Account had a deficit balance at June 30, 2005.

Recommendation - The Utilities should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Response – We are considering a rate increase.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting (continued):

II-L-05 Vehicle Use Policy – The Utility has vehicles for use by employees while on Utility business. The Utility has not adopted a formal written policy regarding vehicle usage.

Recommendation – The Utilities should adopt a formal written policy regarding vehicle use. The policy should address specifics such as commuting, incidental personal use, reimbursement for personal use, public purpose serviced, restricted usage and documentation requirements.

Response – We presently have unwritten guidelines detailing use of Utility vehicles. We will review procedures and guidelines and establish a written policy as soon as possible.

Conclusion – Response accepted.

NEWS RELEASE

ANITA MUNICIPAL UTILITIES

Anita, Iowa

Auditors for Schroer & Associates, P.C., 300 West Broadway, Suite 41, Council Bluffs, Iowa today released an audit report on the Anita Municipal Utilities of Anita, Iowa.

The Utilities' receipts totaled \$886,731 for the year ended June 30, 2005, a 3 percent decrease from 2004. The receipts included \$700,249 in charges for service and \$34,735 in interest on investments.

Disbursements for the year totaled \$835,736, a .6 percent increase from the prior year, and included \$633,526 for operating disbursements, \$92,472 for sewer rental fees remitted to the City, \$77,370 for debt service and \$32,368 for payments in lieu of taxes.

A copy of the audit report is available for review in the office of the Auditor of State and the Anita Municipal Utilities Secretary's office.

November 15, 2005

David Vaudt
Office of State Auditor
State Capitol Building
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of Anita Municipal Utilities for the year ended June 30, 2005.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Barbara Mass
Shareholder

BM/sh
Enc.

November 15, 2005

Mark Schultz
Anita Municipal Utilities
828 Main
Anita, IA 50020

Dear Mark:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (in millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Barbara Mass
Shareholder

BM/sh

Anita Municipal Utilities

Hours Worked: 55