

**CITY OF REMSEN
MUNICIPAL UTILITIES**

Remsen, Iowa

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2005

CITY OF REMSEN

MUNICIPAL UTILITIES

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CITY OF REMSEN
MUNICIPAL UTILITIES
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Kolker	Chairman	January 2008
Stephen Matgen	Trustee	January 2010
Richard Gengler	Trustee	January 2006
Ron Mayer	Superintendent	



KING, REINSCH, PROSSER & CO., L.L.P.
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board of Trustees
City of Remsen
Municipal Utilities
Remsen, Iowa

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, a component unit of the City, as of and for the year ended June 30, 2005, which collectively comprise the Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Remsen's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Municipal Utilities' 2004 financial statements and, in our report dated September 22, 2004, we expressed unqualified opinions on the respective financial statements of the business-type activities, each major fund, and the aggregate remaining fund information.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor
and Board of Trustees
City of Remsen
Municipal Utilities

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2005, on our consideration of the Municipal Utilities of the City of Remsen's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of this 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 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.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 24 and 25 are not required parts of the basic financials but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipal Utilities of the City of Remsen's basic financial statements. Other supplementary information included in Schedules 1 through 7 are presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

King, Reinsch, Prosser & Co., L.L.P.

September 28, 2005
Sioux City, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Municipal Utilities of the City of Remsen provides this Management's Discussion and Analysis of its financial statements. 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 financial statements, which follow.

2005 Financial Highlights

- The Municipal Utilities' assets exceed liabilities by \$3,983,280 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,037,175.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,571,197 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$2,501 are restricted by constraints imposed from outside the Municipal Utilities such as debt covenants.
 - (3) Unrestricted net assets of \$1,409,582 represent the portion available to maintain the Municipal Utilities' continuing obligations to citizens and creditors.
- At the end of the current fiscal year, net assets decreased by \$53,895. The decrease was due to a transfer to the City of Remsen for which the Municipal Utilities is a component unit of \$54,250.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

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

The Statement of Net Assets presents information that includes all of the Municipal Utilities' assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipal Utilities as a whole is improving or deteriorating.

The Statement of Activities reports how the Municipal Utilities' net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The Fund Financial Statements report the Municipal Utilities' operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about nonmajor proprietary funds.

Financial Analysis of the Municipal Utilities as a Whole

The Municipal Utilities' net assets at fiscal year-end are \$3,983,280. This is a \$53,895 decrease over last year's net assets of \$4,037,175. The following table provides a summary of the net assets at June 30:

	<u>2005</u>	<u>2004</u>	<u>Amount Change</u>	<u>% Change</u>
Current and other assets	\$ 1,528,431	\$ 1,716,513	\$ (188,082)	(10.96%)
Capital assets	<u>2,888,881</u>	<u>2,871,310</u>	<u>17,571</u>	<u>0.61%</u>
Total assets	<u>\$ 4,417,312</u>	<u>\$ 4,587,823</u>	<u>\$ (170,511)</u>	<u>(3.72%)</u>
Long-term liabilities	\$ 272,684	\$ 317,205	\$ (44,521)	(14.04%)
Other liabilities	<u>161,348</u>	<u>233,443</u>	<u>(72,095)</u>	<u>(30.88%)</u>
Total liabilities	<u>\$ 434,032</u>	<u>\$ 550,648</u>	<u>\$ (116,616)</u>	<u>(21.18%)</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 2,571,197	\$ 2,524,105	\$ 47,092	1.87%
Restricted	2,501	3,503	(1,002)	(28.60%)
Unrestricted	<u>1,409,582</u>	<u>1,509,567</u>	<u>(99,985)</u>	<u>(6.62%)</u>
Total net assets	<u>\$ 3,983,280</u>	<u>\$ 4,037,175</u>	<u>\$ (53,895)</u>	<u>(1.33%)</u>

The Municipal Utilities reported positive balances in net assets for all the business-type activities. Net assets decreased \$53,895 due primarily to transfers to the City of Remsen.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the Municipal Utilities' changes in net assets for the year ended June 30:

	<u>2005</u>	<u>2004</u>	<u>Amount Change</u>	<u>% Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 1,968,049	\$ 1,612,024	\$ 356,025	22.09%
General receipts:				
Unrestricted interest	26,492	33,278	(6,786)	(20.39%)
Gain on sale of assets	<u>7,505</u>	<u>-</u>	<u>7,505</u>	<u>100.00%</u>
Total revenues	<u>\$ 2,002,046</u>	<u>\$ 1,645,302</u>	<u>\$ 356,744</u>	<u>21.68%</u>
Expenses:				
Water	\$ 211,912	\$ 153,849	\$ 58,063	37.74%
Electric	863,071	776,281	86,790	11.18%
Gas	911,721	762,666	149,055	19.54%
Water Reserve	<u>14,987</u>	<u>16,250</u>	<u>(1,263)</u>	<u>(7.77%)</u>
Total expenses	<u>\$ 2,001,691</u>	<u>\$ 1,709,046</u>	<u>\$ 292,645</u>	<u>17.12%</u>
Decrease in net assets before transfers				
	\$ 355	\$ (63,744)	\$ 64,099	100.56%
Transfers to City of Remsen	<u>(54,250)</u>	<u>(82,473)</u>	<u>28,223</u>	<u>34.22%</u>
Change in net assets	\$ (53,895)	\$ (146,217)	\$ 92,322	63.14%
Beginning net assets	<u>4,037,175</u>	<u>4,183,392</u>	<u>(146,217)</u>	<u>(3.50%)</u>
Ending net assets	<u>\$ 3,983,280</u>	<u>\$ 4,037,175</u>	<u>\$ (53,895)</u>	<u>(1.33%)</u>

Financial Analysis of the Municipal Utilities' Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The Water Utility Fund accounts for the operation and maintenance of the City's water system. Transfers totaling \$13,929 to the Water Reserve Fund contributed primarily to the decrease in net assets of \$5,786.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric system. Net assets decreased by \$114,230 due primarily to increased costs of electricity and the transfer to the City of Remsen for the annual in-lieu of taxes payment.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. The Municipal Utilities Board increased gas rates in August 2004. This increase contributed primarily to the increase in net assets of \$66,570.

Budgetary Highlights

The proprietary fund budget for the fiscal year 2005 was approximately \$2.41 million. This was an increase of \$490,000 over the previous year amended budget.

Disbursements during the year ending June 30, 2005 did not exceed the amounts budgeted in the business-type activities.

Capital Assets and Debt Administration

Capital Assets

The Municipal Utilities' investment in capital assets, net of accumulated depreciation as of June 30, 2005 was \$2,888,881. The total decrease in this net investment was 0.61 percent. For additional information about changes in capital assets during the fiscal year and construction commitments outstanding at the end of the year, see the notes to the financial statements.

	<u>2005</u>	<u>2004</u>	<u>Amount Change</u>	<u>% Change</u>
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Construction in progress	-	149,493	(149,493)	(100.00%)
Depreciable assets:				
Electric plant	791,661	666,645	125,016	18.75%
Electric transmission facilities	165,870	143,370	22,500	15.69%
Water plant	1,562,667	1,588,406	(25,739)	(1.62%)
Gas plant	54,847	-	54,847	100.00%
Gas distribution system	143,092	150,115	(7,023)	(4.68%)
Equipment	55,821	68,484	(12,663)	(18.49%)
Automotive equipment	<u>26,205</u>	<u>16,079</u>	<u>10,126</u>	<u>62.98%</u>
Total	<u>\$ 2,888,881</u>	<u>\$ 2,871,310</u>	<u>\$ 17,571</u>	<u>0.61%</u>

Long-term Debt

At the end of the fiscal year, the Municipal Utilities had total bonded debt outstanding of \$320,000. This debt is supported by pledged revenues generated primarily by the Water Utility Fund (revenue bonds). See the notes of the financial statements for additional discussion.

Economic Environment and Next Year's Budget and Rates

Municipal Utilities' appointed officials and citizens considered many factors when setting the fiscal year 2006 budget and utility rates that will be charged for various utilities. One of these factors is the state of the economy.

The Electric Utility Fund has sustained increased costs of electricity, and is projected to see another increase for the next fiscal year. The Gas Utility Fund will also see projected cost increases next year. With this future increase, the Municipal Utilities will continue to review its revenue and implement increases if deemed necessary.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$1.8 million.

Contacting the Municipal Utilities' Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Pick, City Clerk, P.O. Box 510, Remsen, IA 51050.

FINANCIAL STATEMENTS

CITY OF REMSEN
MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR 2004)

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash	\$ 1,036,923	\$ 1,220,605
Accounts receivable	169,837	135,536
Inventory	63,190	75,940
Accrued interest receivable	7,129	7,267
Prepaid insurance	43,788	42,760
Total current assets	<u>\$ 1,320,867</u>	<u>\$ 1,482,108</u>
RESTRICTED ASSETS:		
Cash	\$ 29,970	\$ 28,970
NON-CURRENT ASSETS:		
Investments:		
Electric transmission capacity reserve (MBMECA)	\$ 177,594	\$ 205,435
Capital assets:		
Land and construction in progress	88,718	238,211
Other capital assets, net of accumulated depreciation	2,800,163	2,633,099
Total non-current assets	<u>\$ 3,066,475</u>	<u>\$ 3,076,745</u>
Total assets	<u>\$ 4,417,312</u>	<u>\$ 4,587,823</u>

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	\$ 86,721	\$ 175,558
Accrued interest payable	2,158	2,418
Meter deposits	27,469	25,467
Current maturities of bond indebtedness	45,000	30,000
Total current liabilities	<u>\$ 161,348</u>	<u>\$ 233,443</u>
NON-CURRENT LIABILITIES:		
Water revenue bonds	\$ 125,000	\$ 145,000
Less bond discount net of amortization	2,316	2,795
	<u>\$ 122,684</u>	<u>\$ 142,205</u>
Water revenue capital loan notes	195,000	205,000
Less current maturities	45,000	30,000
Total non-current liabilities	<u>\$ 272,684</u>	<u>\$ 317,205</u>
Total liabilities	<u>\$ 434,032</u>	<u>\$ 550,648</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 2,571,197	\$ 2,524,105
Restricted for debt service	2,501	3,503
Unrestricted	1,409,582	1,509,567
Total net assets	<u>\$ 3,983,280</u>	<u>\$ 4,037,175</u>

See accompanying notes to financial statements.

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Program Receipts</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
FUNCTIONS/PROGRAMS:					
Business type activities:					
Water	\$ 211,912	\$ 219,230	\$ -	\$ -	\$ 7,318
Electric	863,071	755,984	-	-	(107,087)
Gas	911,721	992,835	-	-	81,114
Water reserve	14,987	-	-	-	(14,987)
Meter deposits	-	-	-	-	-
Total	<u>\$ 2,001,691</u>	<u>\$ 1,968,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (33,642)</u>
GENERAL RECEIPTS:					
Unrestricted interest on investments					26,492
Gain on sale of assets					7,505
TRANSFERS TO CITY OF REMSEN					
Total general receipts and transfers					<u>(54,250)</u>
					<u>\$ (20,253)</u>
CHANGE IN NET ASSETS					
					\$ (53,895)
NET ASSETS BEGINNING OF YEAR					
					<u>4,037,175</u>
NET ASSETS END OF YEAR					
					<u>\$ 3,983,280</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF FUND NET ASSETS

JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR 2004)

ASSETS

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
CURRENT ASSETS:						
Cash	\$ -	\$ 578,519	\$ 456,627	\$ 1,777	\$ 1,036,923	\$ 1,220,605
Accounts receivable	24,634	73,850	71,353	-	169,837	135,536
Due from other funds	-	-	29,963	-	29,963	20,452
Inventory	5,561	54,148	3,481	-	63,190	75,940
Accrued interest receivable	24	3,920	3,185	-	7,129	7,267
Prepaid insurance	<u>8,758</u>	<u>17,515</u>	<u>17,515</u>	<u>-</u>	<u>43,788</u>	<u>42,760</u>
Total current assets	<u>\$ 38,977</u>	<u>\$ 727,952</u>	<u>\$ 582,124</u>	<u>\$ 1,777</u>	<u>\$ 1,350,830</u>	<u>\$ 1,502,560</u>
RESTRICTED ASSETS:						
Cash	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,970</u>	<u>\$ 29,970</u>	<u>\$ 28,970</u>
NON-CURRENT ASSETS:						
Investments:						
Electric transmission capacity reserve (MBMECA)	\$ -	\$ 177,594	\$ -	\$ -	\$ 177,594	\$ 205,435
Capital assets:						
Land and construction in progress	82,218	-	6,500	-	88,718	238,211
Other capital assets, net of accumulated depreciation	<u>1,575,457</u>	<u>1,009,368</u>	<u>215,338</u>	<u>-</u>	<u>2,800,163</u>	<u>2,633,099</u>
Total non-current assets	<u>\$ 1,657,675</u>	<u>\$ 1,186,962</u>	<u>\$ 221,838</u>	<u>\$ -</u>	<u>\$ 3,066,475</u>	<u>\$ 3,076,745</u>
Total assets	<u>\$ 1,696,652</u>	<u>\$ 1,914,914</u>	<u>\$ 803,962</u>	<u>\$ 31,747</u>	<u>\$ 4,447,275</u>	<u>\$ 4,608,275</u>

LIABILITIES

CURRENT LIABILITIES:						
Accounts payable	\$ 876	\$ 55,097	\$ 30,748	\$ -	\$ 86,721	\$ 175,558
Due to other funds	29,963	-	-	-	29,963	20,452
Accrued interest payable	2,158	-	-	-	2,158	2,418
Meter deposits	-	-	-	27,469	27,469	25,467
Current maturities of bond indebtedness	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000</u>	<u>30,000</u>
Total current liabilities	<u>\$ 77,997</u>	<u>\$ 55,097</u>	<u>\$ 30,748</u>	<u>\$ 27,469</u>	<u>\$ 191,311</u>	<u>\$ 253,895</u>
NON-CURRENT LIABILITIES:						
Water revenue bonds	\$ 125,000	\$ -	\$ -	\$ -	\$ 125,000	\$ 145,000
Less bond discount net of amortization	<u>2,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,316</u>	<u>2,795</u>
	\$ 122,684	\$ -	\$ -	\$ -	\$ 122,684	\$ 142,205
Water revenue capital loan notes	195,000	-	-	-	195,000	205,000
Less current maturities	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000</u>	<u>30,000</u>
Non-current liabilities	<u>\$ 272,684</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 272,684</u>	<u>\$ 317,205</u>
Total liabilities	<u>\$ 350,681</u>	<u>\$ 55,097</u>	<u>\$ 30,748</u>	<u>\$ 27,469</u>	<u>\$ 463,995</u>	<u>\$ 571,100</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 1,339,991	\$ 1,009,368	\$ 221,838	\$ -	\$ 2,571,197	\$ 2,524,105
Restricted for debt service	-	-	-	2,501	2,501	3,503
Unrestricted	<u>5,980</u>	<u>850,449</u>	<u>551,376</u>	<u>1,777</u>	<u>1,409,582</u>	<u>1,509,567</u>
Total net assets	<u>\$ 1,345,971</u>	<u>\$ 1,859,817</u>	<u>\$ 773,214</u>	<u>\$ 4,278</u>	<u>\$ 3,983,280</u>	<u>\$ 4,037,175</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR 2004)

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
OPERATING REVENUE:						
Charges for services:						
Water	\$ 219,230	\$ -	\$ -	\$ -	\$ 219,230	\$ 210,942
Electric	-	755,984	-	-	755,984	754,391
Gas	-	-	992,835	-	992,835	646,691
	<u>\$ 219,230</u>	<u>\$ 755,984</u>	<u>\$ 992,835</u>	<u>\$ -</u>	<u>\$ 1,968,049</u>	<u>\$ 1,612,024</u>
OPERATING EXPENSES:						
Personal services:						
Salaries and wages	\$ 26,199	\$ 73,495	\$ 73,495	\$ -	\$ 173,189	\$ 156,643
Employee benefits and costs	3,639	40,880	40,346	-	84,865	83,387
Staff development	1,678	2,277	1,624	-	5,579	4,968
	<u>\$ 31,516</u>	<u>\$ 116,652</u>	<u>\$ 115,465</u>	<u>\$ -</u>	<u>\$ 263,633</u>	<u>\$ 244,998</u>
Services and commodities:						
Repair, maintenance and utilities	\$ 18,138	\$ 21,643	\$ 1,991	\$ -	\$ 41,772	\$ 54,079
Contractual services	70,370	81,837	44,095	-	196,302	123,997
Commodities	22,694	517,117	733,973	-	1,273,784	1,071,635
	<u>\$ 111,202</u>	<u>\$ 620,597</u>	<u>\$ 780,059</u>	<u>\$ -</u>	<u>\$ 1,511,858</u>	<u>\$ 1,249,711</u>
Depreciation	<u>\$ 68,715</u>	<u>\$ 125,822</u>	<u>\$ 16,197</u>	<u>\$ -</u>	<u>\$ 210,734</u>	<u>\$ 197,169</u>
Total operating expenses	<u>\$ 211,433</u>	<u>\$ 863,071</u>	<u>\$ 911,721</u>	<u>\$ -</u>	<u>\$ 1,986,225</u>	<u>\$ 1,691,878</u>
Operating income (loss)	<u>\$ 7,797</u>	<u>\$ (107,087)</u>	<u>\$ 81,114</u>	<u>\$ -</u>	<u>\$ (18,176)</u>	<u>\$ (79,854)</u>
NON-OPERATING REVENUE (EXPENSES):						
Investment income	\$ 825	\$ 14,602	\$ 10,456	\$ 609	\$ 26,492	\$ 33,279
Gain on sale of assets	-	7,505	-	-	7,505	-
Bond discount amortization	(479)	-	-	-	(479)	(918)
Interest on bonds	-	-	-	(14,987)	(14,987)	(16,251)
Total non-operating revenue (expense)	<u>\$ 346</u>	<u>\$ 22,107</u>	<u>\$ 10,456</u>	<u>\$ (14,378)</u>	<u>\$ 18,531</u>	<u>\$ 16,110</u>
INCOME (LOSS) BEFORE TRANSFERS	\$ 8,143	\$ (84,980)	\$ 91,570	\$ (14,378)	\$ 355	\$ (63,744)
TRANSFERS:						
Transfers from other funds	\$ -	\$ -	\$ -	\$ 13,929	\$ 13,929	\$ 16,186
Transfers to other funds	(13,929)	-	-	-	(13,929)	(16,186)
Transfers to City of Remsen	-	(29,250)	(25,000)	-	(54,250)	(82,473)
Total transfers	<u>\$ (13,929)</u>	<u>\$ (29,250)</u>	<u>\$ (25,000)</u>	<u>\$ 13,929</u>	<u>\$ (54,250)</u>	<u>\$ (82,473)</u>
CHANGE IN NET ASSETS	\$ (5,786)	\$ (114,230)	\$ 66,570	\$ (449)	\$ (53,895)	\$ (146,217)
NET ASSETS BEGINNING OF YEAR	<u>1,351,757</u>	<u>1,974,047</u>	<u>706,644</u>	<u>4,727</u>	<u>4,037,175</u>	<u>4,183,392</u>
NET ASSETS END OF YEAR	<u>\$ 1,345,971</u>	<u>\$ 1,859,817</u>	<u>\$ 773,214</u>	<u>\$ 4,278</u>	<u>\$ 3,983,280</u>	<u>\$ 4,037,175</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR 2004)

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	\$ 219,769	\$ 751,900	\$ 962,079	\$ 2,002	\$ 1,935,750	\$ 1,587,451
Cash payments to suppliers for goods and services	(117,069)	(636,761)	(834,321)	-	(1,588,151)	(1,322,434)
Cash payments to employees	(26,199)	(73,495)	(73,495)	-	(173,189)	(156,643)
Net cash provided (used) by operating activities	<u>\$ 76,501</u>	<u>\$ 41,644</u>	<u>\$ 54,263</u>	<u>\$ 2,002</u>	<u>\$ 174,410</u>	<u>\$ 108,374</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Receipts under interfund loans	\$ 29,963	\$ 20,452	\$ -	\$ -	\$ 50,415	\$ 103,639
Payments under interfund loans	(20,452)	-	(29,963)	-	(50,415)	(103,639)
Transfers to other funds	(13,929)	-	-	-	(13,929)	(16,186)
Transfers from other funds	-	-	-	13,929	13,929	16,186
Transfers to City of Remsen	-	(29,250)	(25,000)	-	(54,250)	(82,473)
Net cash provided (used) by non-capital financing activities	<u>\$ (4,418)</u>	<u>\$ (8,798)</u>	<u>\$ (54,963)</u>	<u>\$ 13,929</u>	<u>\$ (54,250)</u>	<u>\$ (82,473)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Principal payments under bond obligations	\$ (30,000)	\$ -	\$ -	\$ -	\$ (30,000)	\$ (30,000)
Interest payments under bond obligations	(260)	-	-	(14,987)	(15,247)	(16,508)
Purchases of capital assets	(42,642)	(219,638)	(57,291)	-	(319,571)	(103,302)
Net cash provided (used) by capital and related financing activities	<u>\$ (72,902)</u>	<u>\$ (219,638)</u>	<u>\$ (57,291)</u>	<u>\$ (14,987)</u>	<u>\$ (364,818)</u>	<u>\$ (149,810)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Investment income	\$ 819	\$ 14,418	\$ 10,784	\$ 609	\$ 26,630	\$ 34,257
Proceeds from sale of assets	-	7,505	-	-	7,505	-
Investments in MBMECA	-	27,841	-	-	27,841	(4,303)
Net cash provided (used) by investing activities	<u>\$ 819</u>	<u>\$ 49,764</u>	<u>\$ 10,784</u>	<u>\$ 609</u>	<u>\$ 61,976</u>	<u>\$ 29,954</u>
NET INCREASE (DECREASE) IN CASH	\$ -	\$ (137,028)	\$ (47,207)	\$ 1,553	\$ (182,682)	\$ (93,955)
CASH AT BEGINNING OF YEAR	-	715,547	503,834	30,194	1,249,575	1,343,530
CASH AT END OF YEAR	\$ -	\$ 578,519	\$ 456,627	\$ 31,747	\$ 1,066,893	\$ 1,249,575
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 7,797	\$ (107,087)	\$ 81,114	\$ -	\$ (18,176)	\$ (79,854)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	68,715	125,822	16,197	-	210,734	197,169
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	539	(4,084)	(30,756)	-	(34,301)	(24,737)
(Increase) decrease in inventory	(111)	12,778	83	-	12,750	837
(Increase) decrease in prepaid insurance	(206)	(411)	(411)	-	(1,028)	(1,792)
Increase (decrease) in accounts payable	(233)	14,626	(11,964)	-	2,429	16,587
Increase (decrease) in meter deposits	-	-	-	2,002	2,002	164
Net cash provided (used) by operating activities	<u>\$ 76,501</u>	<u>\$ 41,644</u>	<u>\$ 54,263</u>	<u>\$ 2,002</u>	<u>\$ 174,410</u>	<u>\$ 108,374</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING TRANSACTIONS:						
Capital assets purchased by short-term debt (accounts payable)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,266</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE A - ACCOUNTING POLICIES:

Municipal Utilities is a discretely presented component unit of the City of Remsen, Iowa, with a function of providing utility services to the residents of the City of Remsen. Although the Utilities are legally separate from the City, they remain financially accountable to the City. The operation of the Utilities is directed by a Board of Trustees, which is appointed by the City Council of Remsen, Iowa.

Government-wide Financial Statements - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Municipal Utilities of the City of Remsen. Individual funds are not displayed but the statements show the business-type activities, generally financed in whole or in part with fee charged to external customers.

The statement of net assets report three categories of net assets:

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

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

Unrestricted net assets - consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines, and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grant and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE A - ACCOUNTING POLICIES (CONTINUED):

Fund Financial Statements - Major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor funds.

Measurement Focus and Basis of Accounting - The financial statements of the Municipal Utilities are prepared in accordance with generally accepted accounting principles (GAAP). The entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. It does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expense are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Major Funds - The Municipal Utilities reports the following major proprietary funds:

Water Utility - accounts for the operation and maintenance of the water system.

Electric Utility - accounts for the operation and maintenance of the electric system.

Gas Utility - accounts for the operation and maintenance of the natural gas system.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE A - ACCOUNTING POLICIES (CONTINUED):

Budgets and Budgetary Accounting - 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, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program.

Cash and Cash Equivalents - For purposes of the financial statement of cash flows, the City considers all certificates of deposit with maturities of one year or less to be cash equivalents.

Recognition of Revenues - In accordance with industry practice, Municipal Utilities records revenues as service is actually billed to the customer.

Capital Assets, Depreciation and Maintenance - The Municipal Utilities' property, plant, and equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements and the fund financial statements. The provisions for depreciation are based on straight-line rates varying from 5 to 50 years for utility property and equipment. Maintenance is charged for repairs of property and any replacements and renewals of items which do not materially extend the life of the asset.

Accounts Receivable - Accounts receivable are reported at their expected realizable value.

Inventory - Inventory is presented at the lower of first-in, first-out (FIFO) cost or market.

Management's Use of Estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE B - CASH AND POOLED INVESTMENTS:

The Utilities's 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 the 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 City Council; 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. During the year ended June 30, 2005, the Municipal Utilities held no investments.

Cash and cash equivalents are composed accordingly as of June 30, 2005:

Checking accounts	\$ 243,893
Certificates of deposit	<u>823,000</u>
Total	<u>\$ 1,066,893</u>

NOTE C - ELECTRIC TRANSMISSION CAPACITY RESERVE (MBMECA):

The members of Missouri Basin Municipal Electric Cooperative have agreed to establish a restricted fund for future expansion of their transmission facility. Each member pays \$.0050 per 100 KWH used into the fund. The City of Remsen Municipal Utilities' share of the fund decreased by \$27,841 during the current fiscal year to a June 30, 2005 balance of \$177,594.

NOTE D - RESTRICTED ASSETS:

At June 30, 2005, \$2,501 of net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. The City also held \$27,469 of customer utility deposits at June 30, 2005. Restricted assets are reported in various funds for cash deposited in bank accounts legally restricted for specific uses such as the payment of debt service and refund of utility deposits. See Note A describing the priority for use of restricted and unrestricted assets.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE E - CAPITAL ASSETS:

A summary of changes in the capital assets for the year ended June 30, 2005 is as follows:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u> <u>and Reclasses</u>	<u>Balance</u> <u>June 30, 2005</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 149,493	\$ 120,058	\$ 269,551	\$ -
Land	<u>88,718</u>	<u>-</u>	<u>-</u>	<u>88,718</u>
Total capital assets not being depreciated	<u>\$ 238,211</u>	<u>\$ 120,058</u>	<u>\$ 269,551</u>	<u>\$ 88,718</u>
Capital assets being depreciated:				
Electric plant, highlines and improvements	2,787,373	213,440	-	3,000,813
Electric transmission facilities (MBMECA)	554,275	42,710	-	596,985
Water plant, equipments and improvements	2,401,884	36,169	-	2,438,053
Gas plant	-	56,110	-	56,110
Gas distribution system	415,926	-	-	415,926
Equipment	163,565	9,364	-	172,929
Automotive equipment	<u>112,362</u>	<u>20,005</u>	<u>-</u>	<u>132,367</u>
Total capital assets being depreciated	\$ 6,435,385	\$ 377,798	\$ -	\$ 6,813,183
Less accumulated depreciation:				
Electric plant, highlines and improvements	\$ (2,120,728)	\$ (88,424)	\$ -	\$ (2,209,152)
Electric transmission facilities (MBMECA)	(410,905)	(20,210)	-	(431,115)
Water plant, equipments and improvements	(813,478)	(61,908)	-	(875,386)
Gas plant	-	(1,263)	-	(1,263)
Gas distribution system	(265,811)	(7,023)	-	(272,834)
Equipment	(95,081)	(22,027)	-	(117,108)
Automotive equipment	<u>(96,283)</u>	<u>(9,879)</u>	<u>-</u>	<u>(106,162)</u>
Total accumulated depreciation	<u>\$ (3,802,286)</u>	<u>\$ (210,734)</u>	<u>\$ -</u>	<u>\$ (4,013,020)</u>
Total net capital assets being depreciated	<u>\$ 2,633,099</u>	<u>\$ 167,064</u>	<u>\$ -</u>	<u>\$ 2,800,163</u>
Business type activities capital assets, net	<u>\$ 2,871,310</u>	<u>\$ 287,122</u>	<u>\$ 269,551</u>	<u>\$ 2,888,881</u>

Depreciation expense of \$210,734 was charged to the business type activities function on the statement of activities.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE F - BONDED INDEBTEDNESS:

Water Revenue Bonds - On March 1, 1999, the City issued \$245,000 in new water revenue bonds to refinance pre-existing water revenue bonds. The bonds have interest rates ranging between 4.45 percent and 5.0 percent, and mature annually in amounts of \$20,000 and \$25,000, respectively, until the year 2010. The bonds pay interest semi-annually on October 1 and April 1, with principal being due on April 1.

Water Revenue Capital Loan Notes - On December 15, 2001, the City issued \$235,000 in new water revenue capital loan notes to provide funds to pay for construction improvements and extensions to the municipal water utility. The bonds have interest rates ranging between 3.25 percent and 4.25 percent, and mature annually in amounts of \$10,000, \$20,000, \$25,000 and \$80,000, respectively, until the year 2011. The notes pay interest semi-annually on June 1 and December 1, with principal being due on June 1.

During the year ended June 30, 2005 the following changes occurred in Long-Term Debt:

	Balance			Balance	
	<u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2005</u>	<u>Due Within One Year</u>
Water Revenue Bonds	\$ 145,000	\$ -	\$ 20,000	\$ 125,000	\$ 25,000
Water Capital Loan Notes	<u>205,000</u>	<u>-</u>	<u>10,000</u>	<u>195,000</u>	<u>20,000</u>
	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 320,000</u>	<u>\$ 45,000</u>

A summary of the Municipal Utilities' bonded indebtedness by maturities is as follows:

Year Ending June 30,	<u>Water Revenue Bonds</u>		<u>Water Capital Loan Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 25,000	\$ 5,038	\$ 20,000	\$ 7,935	\$ 45,000	\$ 12,973
2007	25,000	4,863	20,000	7,185	45,000	12,048
2008	25,000	3,675	25,000	6,425	50,000	10,100
2009	25,000	2,475	25,000	5,425	50,000	7,900
2010	25,000	1,250	25,000	4,413	50,000	5,663
2011	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>3,400</u>	<u>80,000</u>	<u>3,400</u>
Total	<u>\$ 125,000</u>	<u>\$ 17,301</u>	<u>\$ 195,000</u>	<u>\$ 34,783</u>	<u>\$ 320,000</u>	<u>\$ 52,084</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE G - PENSION AND RETIREMENT BENEFITS:

The Utilities contribute 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 percent of their annual salary and the Utilities are required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$9,777, \$8,934 and \$8,784, respectively, equal to the required contribution for each year.

NOTE H - COMPENSATED ABSENCES:

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005 is considered immaterial.

NOTE I - TRANSFERS:

Water Utility Fund:

During the year ended June 30, 2005, transfers totaling \$13,929 were made from the Water Utility Fund to the Water Reserve Fund. This is a routine transfer for the annual payments of interest on the revenue bond and notes in accordance with the debt resolutions.

Electric Utility Fund:

During the year ended June 30, 2005, transfers totaling \$29,250 were made to the primary government, the City of Remsen. \$25,000 was a routine transfer to the City in lieu of taxes. The remaining \$4,250 was not a routine transfer and was for improvements to the Thelen baseball park.

Gas Utility Fund:

Transfer of \$25,000 was made from the Gas Utility Fund to the primary government, the City of Remsen. This is a routine transfer to the City in lieu of taxes.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE J - INTERFUND BALANCES:

Outstanding balances between the water utility fund and the gas utility fund reported as “due to/from other funds” include the negative cash of the water utility fund from the pooled cash account. These balances are eliminated on the government-wide statement of net assets.

NOTE K - SEGMENT INFORMATION:

The City issued revenue bonds to support the water utility fund construction improvements. The fund financial statements report major funds with revenue-supported debt for the Water Utility Fund. This fund accounts for water services provided to area residents. Summarized financial information for these funds as of and for the year ended June 30, 2005, is presented as follows:

	<u>Water Utility</u>
Condensed statement of net assets:	
Assets:	
Current assets	\$ 38,977
Capital assets	<u>1,657,675</u>
Total assets	<u>\$ 1,696,652</u>
Liabilities:	
Current liabilities	\$ 77,997
Noncurrent liabilities	<u>272,684</u>
Total liabilities	<u>\$ 350,681</u>
Net assets:	
Investment in capital assets, net of related debt	\$ 1,339,991
Unrestricted	<u>5,980</u>
Total net assets	<u>\$ 1,345,971</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE K - SEGMENT INFORMATION (CONTINUED):

Condensed statement of revenues, expenses, and changes in net assets:	
Operating revenues	\$ 219,230
Depreciation expense	(68,715)
Other operating expenses	<u>(142,718)</u>
Operating income	\$ 7,797
Non-operating revenue (expenses)	346
Transfers	<u>(13,929)</u>
Changes in net assets	\$ (5,786)
Beginning net assets	<u>1,351,757</u>
Ending net assets	<u>\$ 1,345,971</u>
Condensed statement of cash flows:	
Net cash provided (used) by:	
Operating activities	\$ 76,501
Non-capital financing activities	(4,418)
Capital and related financing activities	(72,902)
Investing activities	<u>819</u>
Net increase (decrease)	\$ -
Beginning cash	<u>-</u>
Ending cash	<u>\$ -</u>

NOTE L - RISK MANAGEMENT:

The Municipal Utilities are exposed to various risks of loss related to torts; thefts, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Municipal Utilities assume 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.

NOTE M - RELATED PARTY TRANSACTIONS:

The Municipal Utilities had business transactions of \$58,385 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2005.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE N - COMMITMENTS:

The Municipal Utilities has entered into the following contracts to be completed after June 30, 2005:

<u>Description</u>	<u>Total</u> <u>Contract</u>	<u>Progress Bills</u>	
		<u>Through</u> <u>June 30, 2005</u>	<u>Remaining</u> <u>Contract</u>
Gas improvement project	\$ 94,100	\$ -	\$ 94,100
Replace water well #5	7,912	-	7,912
Utility maintenance building parking overlay project	<u>35,490</u>	<u>-</u>	<u>35,490</u>
	<u>\$ 137,502</u>	<u>\$ -</u>	<u>\$ 137,502</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF REMSEN

MUNICIPAL UTILITIES

COMPARISON OF RECEIPTS, DISBURSEMENTS AND

CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

	Business- Type <u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
RECEIPTS:				
Use of money and property	\$ 26,630	\$ 31,200	\$ 31,200	\$ (4,570)
Charges for services	<u>1,933,748</u>	<u>1,801,850</u>	<u>2,116,350</u>	<u>(182,602)</u>
	<u>\$ 1,960,378</u>	<u>\$ 1,833,050</u>	<u>\$ 2,147,550</u>	<u>\$ (187,172)</u>
DISBURSEMENTS:				
Business-type activities	<u>\$ 2,096,315</u>	<u>\$ 2,150,681</u>	<u>\$ 2,406,681</u>	<u>\$ 310,366</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	\$ (135,937)	\$ (317,631)	\$ (259,131)	<u>\$ 123,194</u>
OTHER FINANCING USES:				
Proceeds from sale of assets	7,505	-	-	
Transfers out	<u>(54,250)</u>	<u>-</u>	<u>-</u>	
	<u>\$ (46,745)</u>	<u>\$ -</u>	<u>\$ -</u>	
DEFICIENCY OF RECEIPTS AND OTHER FINANCING SOURCES UNDER DISBURSEMENTS AND OTHER FINANCING USES	\$ (182,682)	\$ (317,631)	\$ (259,131)	
BALANCE BEGINNING OF YEAR	<u>1,249,575</u>	<u>1,190,107</u>	<u>1,190,107</u>	
BALANCE END OF YEAR	<u>\$ 1,066,893</u>	<u>\$ 872,476</u>	<u>\$ 930,976</u>	

CITY OF REMSEN

MUNICIPAL UTILITIES

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash</u>	<u>Accrual</u>	<u>Accrual</u>
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 1,960,378	\$ 34,163	\$ 1,994,541
Expenses	2,096,315	(94,624)	2,001,691
Other financing sources (uses)	<u>(46,745)</u>	<u>-</u>	<u>(46,745)</u>
Net	\$ (182,682)	\$ 128,787	\$ (53,895)
Beginning net assets	<u>1,249,575</u>	<u>2,787,600</u>	<u>4,037,175</u>
Ending net assets	<u>\$ 1,066,893</u>	<u>\$ 2,916,387</u>	<u>\$ 3,983,280</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2005

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 except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Municipal Utilities budget is included in the primary government, City of Remsen's, annual budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functions disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Municipal Utilities disbursements are budgeted under business-type activities. During the year, the City amended its budget and increased budgeted disbursements by \$256,000 and increased budgeted receipts by \$314,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in the business type activities function.

OTHER SUPPLEMENTAL INFORMATION

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF FUND NET ASSETS

NONMAJOR PROPRIETARY FUNDS

JUNE 30, 2005

ASSETS

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
CURRENT ASSETS:			
Cash	\$ <u> -</u>	\$ <u> 1,777</u>	\$ <u> 1,777</u>
RESTRICTED ASSETS:			
Cash	\$ <u> 2,501</u>	\$ <u> 27,469</u>	\$ <u> 29,970</u>
Total assets	\$ <u> 2,501</u>	\$ <u> 29,246</u>	\$ <u> 31,747</u>

LIABILITIES

CURRENT LIABILITIES:			
Meter deposits	\$ <u> -</u>	\$ <u> 27,469</u>	\$ <u> 27,469</u>
Total liabilities	\$ <u> -</u>	\$ <u> 27,469</u>	\$ <u> 27,469</u>

NET ASSETS

Restricted for debt service	\$ <u> 2,501</u>	\$ <u> -</u>	\$ <u> 2,501</u>
Unrestricted	<u> -</u>	<u> 1,777</u>	<u> 1,777</u>
Total net assets	\$ <u> 2,501</u>	\$ <u> 1,777</u>	\$ <u> 4,278</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN FUND NET ASSETS

NONMAJOR PROPRIETARY FUNDS

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
NON-OPERATING REVENUE (EXPENSES):			
Investment income	\$ 56	\$ 553	\$ 609
Interest on bonds	<u>(14,987)</u>	<u>-</u>	<u>(14,987)</u>
Total non-operating revenue (expenses)	<u>\$ (14,931)</u>	<u>\$ 553</u>	<u>\$ (14,378)</u>
TRANSFERS:			
Transfers from other funds	<u>\$ 13,929</u>	<u>\$ -</u>	<u>\$ 13,929</u>
Total transfers	<u>\$ 13,929</u>	<u>\$ -</u>	<u>\$ 13,929</u>
CHANGE IN NET ASSETS	\$ (1,002)	\$ 553	\$ (449)
NET ASSETS BEGINNING OF YEAR	<u>3,503</u>	<u>1,224</u>	<u>4,727</u>
NET ASSETS END OF YEAR	<u><u>\$ 2,501</u></u>	<u><u>\$ 1,777</u></u>	<u><u>\$ 4,278</u></u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS

NONMAJOR PROPRIETARY FUNDS

FISCAL YEAR ENDED JUNE 30, 2005

	Water <u>Reserve</u>	Meter <u>Deposits</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ -	\$ 2,002	\$ 2,002
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 2,002</u>	<u>\$ 2,002</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	\$ 13,929	\$ -	\$ 13,929
Net cash provided by financing activities	<u>\$ 13,929</u>	<u>\$ -</u>	<u>\$ 13,929</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest payments under bond obligations	\$ (14,987)	\$ -	\$ (14,987)
Net cash used for capital and related financing activities	<u>\$ (14,987)</u>	<u>\$ -</u>	<u>\$ (14,987)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	\$ 56	\$ 553	\$ 609
Net cash provided by financing activities	<u>\$ 56</u>	<u>\$ 553</u>	<u>\$ 609</u>
NET (DECREASE) INCREASE IN CASH	\$ (1,002)	\$ 2,555	\$ 1,553
CASH AT BEGINNING OF YEAR	<u>3,503</u>	<u>26,691</u>	<u>30,194</u>
CASH AT END OF YEAR	<u>\$ 2,501</u>	<u>\$ 29,246</u>	<u>\$ 31,747</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in meter deposits	<u>-</u>	<u>2,002</u>	<u>2,002</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 2,002</u>	<u>\$ 2,002</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

BOND AND NOTE MATURITIES

JUNE 30, 2005

Year Ending	Revenue Notes				
	Water Revenue Bonds March 1, 1999		Water Capital Loan Notes December 15, 2001		Total
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
<u>June 30,</u>					
2006	4.70%	\$ 25,000	3.75%	\$ 20,000	\$ 45,000
2007	4.75%	25,000	3.80%	20,000	45,000
2008	4.80%	25,000	4.00%	25,000	50,000
2009	4.90%	25,000	4.05%	25,000	50,000
2010	5.00%	25,000	4.05%	25,000	50,000
2011	0.00%	-	4.25%	80,000	80,000
		<u>\$ 125,000</u>		<u>\$ 195,000</u>	<u>\$ 320,000</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

SCHEDULE OF ELECTRIC RATES

JUNE 30,

2005

2004

RESIDENTIAL SERVICE

First 50 KWH - \$0.070 per KWH	First 50 KWH - \$0.070 per KWH
Next 150 KWH - \$0.055 per KWH	Next 150 KWH - \$0.055 per KWH
Over 200 KWH - \$0.045 per KWH	Over 200 KWH - \$0.045 per KWH
Minimum charge - \$4.25 per month	Minimum charge - \$3.50 per month

COMMERCIAL SERVICE AND POWER

First 100 KWH - \$0.085 per KWH	First 100 KWH - \$0.070 per KWH
Next 400 KWH - \$0.070 per KWH	Next 400 KWH - \$0.055 per KWH
Next 500 KWH - \$0.065 per KWH	Next 500 KWH - \$0.050 per KWH
Over 1,000 KWH - \$0.060 per KWH	Over 1,000 KWH - \$0.045 per KWH
Minimum charge - \$8.50 per month	Minimum charge - \$7.00 per month
Demand charge - \$3.00 per KWH plus \$0.055 per KWH used	Demand charge - \$3.00 per KWH plus \$0.040 per KWH used

ELECTRIC CUSTOMERS

Residential Customers - 703
Commercial Customers - 216

CITY OF REMSEN

MUNICIPAL UTILITIES

SCHEDULE OF WATER RATES

JUNE 30,

2005

2004

RESIDENTIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$7.25
Next 14,000 gallons - \$3.00 per M gallons
Over 15,000 gallons - \$2.75 per M gallons
Minimum charge - \$7.25 per month

First 1,000 gallons - \$7.25
Next 14,000 gallons - \$3.00 per M gallons
Over 15,000 gallons - \$2.75 per M gallons
Minimum charge - \$7.25 per month

COMMERCIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$8.25
Next 5,000 gallons - \$3.00 per M gallons
Over 6,000 gallons - \$2.75 per M gallons
Minimum charge - \$8.25

First 1,000 gallons - \$8.25
Next 5,000 gallons - \$3.00 per M gallons
Over 6,000 gallons - \$2.75 per M gallons
Minimum charge - \$8.25

WATER CUSTOMERS

Residential Customers - 659
Commercial Customers - 127

CITY OF REMSEN

MUNICIPAL UTILITIES

SCHEDULE OF GAS RATES

JUNE 30,

2005

2004

RESIDENTIAL AND COMMERCIAL

All CF \$9.50 per MCF
Minimum charge - \$9.50 per month

All CF \$7.50 per MCF
Minimum charge - \$7.50 per month

GAS CUSTOMERS

Residential Customers - 643
Commercial Customers - 115



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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*

To the Honorable Mayor and Board of Trustees
City of Remsen
Municipal Utilities
Remsen, Iowa

We have audited the financial statements of the Municipal Utilities of the City of Remsen, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 28, 2005. 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 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 operation of the internal control over financial reporting that, in our judgment, could adversely affect the 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 on pages 24 and 25, we believe item I-A-05 is a material weakness.



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

To the Honorable Mayor
and Board of Trustees
City of Remsen
Municipal Utilities

COMPLIANCE AND OTHER MATTERS

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

Comments involving statutory and other legal matters about the Municipal 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 Municipal 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.

We also noted certain additional matters that we reported to management of Municipal Utilities of the City of Remsen, Iowa in a separate letter dated September 28, 2005.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Municipal Utilities of the City of Remsen, Iowa, and other parties to whom the Utilities may report and 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 Municipal Utilities of the City of Remsen, Iowa 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.

King, Reinsch, Prosser & Co., L.L.P.

September 28, 2005
Sioux City, Iowa

CITY OF REMSEN
MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or irregularities. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, we noted that recordkeeping for the Municipal Utilities is the primary responsibility of one person, with review by the Trustees.

Recommendation - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Trustees remain actively involved in the financial affairs of the Municipal Utilities to provide oversight and review functions.

Response - The Board understands the nature of the weakness and the necessity for the Trustees to provide oversight and review functions. The Trustees will review the Utilities' procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

I-B-05 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - We have worked with CMS software technical support to assist in preparation of reports with little success. We will consider exploring other software or contracting for some support with CMS software in preparing reconciliations.

Conclusion - Response accepted.

CITY OF REMSEN
MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements (Continued)

I-C-05 Meter Deposits - During our audit, it was noted that the activity of the meter deposits bank account was not recorded in the general ledger.

Recommendation - The activity of the meter deposits needs to be recorded in a separate fund.

Response- We will record as recommended in the future.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

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

II-B-05 Certified Budget - Disbursements for the year ended June 30, 2005 did not exceed the amount budgeted in the business-type activities functional area.

II-C-05 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

II-E-05 Business Transactions - The Municipal Utilities had business transactions of \$58,385 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2005.

Recommendation - The transaction exceeded \$1,500 and may represent a conflict of interest. We recommend the Council consult legal counsel on the disposition of this matter.

Response - We will consult legal counsel.

Conclusion - Response accepted.

CITY OF REMSEN

MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

(CONTINUED)

Part II: Other Findings Related to Required Statutory Reporting (Continued)

II-F-05 Bond Coverage - Surety bond coverage of Board of Trustees 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.

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

Although minutes of the Board of Trustees proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the publications do not include total disbursements from each fund and summary of all receipts.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes, disbursements by fund, and receipts as required.

Response - We will publish minutes, disbursements by fund and receipts as required.

Conclusion - Response accepted.

II-H-05 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-I-05 Water Revenue Bonds - We noted no instances of noncompliance with the terms of the City's Water Revenue Bonds. All scheduled payments of bond principal and interest were properly made.

II-J-05 Water Revenue Capital Loan Notes - We noted no instances of noncompliance with the terms of the City's Water Revenue Capital Loan Notes. All scheduled payments of bond principal and interest were properly made.