

LA PORTE CITY UTILITIES

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

JUNE 30, 2006

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La Porte City Utilities

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Piphon	Trustee - Chairman	September 2007
Phil Norris	Trustee	September 2009
Don Heckroth	Trustee - Secretary	September 2011

La Porte City Utilities

Independent Auditor's Report

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2006, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the La Porte City Utilities's management. Our responsibility is to express opinions on these financial statements 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 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 our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2006, and the respective 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 October 30, 2006 on our consideration of the La Porte City Utilities's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 opinions on the financial statements that collectively comprise the La Porte City Utilities's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

October 30, 2006

LA PORTE CITY UTILITIES

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MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities 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, 2006. It is to be used in conjunction with the Utilities Annual Report, which follow.

BASIS OF ACCOUNTING

The Utilities has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a method of accounting other than generally accepted accounting principles. Basis of accounting is a reference as to *when* financial events are recorded. Under the modified cash basis of accounting, revenues and expenses and their related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (*such as accounts receivable and revenue for billed or provided services not yet collected*). As well as certain liabilities and their related expenses (*such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities*) are not recorded in these financial statements. 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 modified cash basis of accounting.

HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

Basic Financial Statements

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)
Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)
Presents the Utilities operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)
Reconciles any differences between Exhibit A and Exhibit B

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

- Further explains and supports the financial statements with a comparison of the Utilities budget for the year.

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006

Other Supplementary Information

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)
Presents the non-major funds in more detail that were lumped together in Exhibit B.
- **Schedule of Indebtedness** (Schedule 2)
Presents detailed information on outstanding debts incurred by the Utilities.
- **Bond and Note Maturities** (Schedule 3)
Summarized bond repayment schedule
- **Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds** (Schedule 4)
Provides a multi-year comparison of the Utilities revenues and disbursements as a whole.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

BASIC FINANCIAL STATEMENTS

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)

The first section of the statement presents the major **Functions/ Programs**. For the Utilities, those are the Electric Fund, Water fund, and the Debt Service Reserve Fund. The *Disbursements* are listed in the first column with *Charges for Service* and *Restricted Interest* revenues from that program to the right. The result is a Net (Expense)/Revenue. This is to determine the extent to which the programs support themselves.

The next section is the **General Receipts**. It shows the *Unrestricted Interest* and *Miscellaneous Revenues*. These revenues are not listed above because they are not generated from the direct operation of the activities.

Adding the *Total Business Type Net Change in Cash* with the *Total General Receipts* equals the *Change in Cash Basis Net Assets* or the total increase/(decrease) in net assets for the Utilities for the year. For the fiscal year ending June 30, 2006, the increase in net assets was \$109,451. Add that to the *Beginning Net Assets* balance of \$765,099, gives us a new *Ending Net Assets* balance of \$874,550.

The final section of this report shows that the *Ending Net Assets* consist of \$267,681 in restricted funds, and \$606,869 in un-restricted funds. Of the restricted funds, some are required to be established by Bond Covenants, others by State Law, or some are established by the Board to help it control and manage money for particular purposes.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The three major funds the Utilities maintain are for the Electric and Water departments as well as the Debt Service Reserve Fund. All other funds are lumped together as Non-Major funds for the purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, *Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds* (Schedule 1).

Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the *Excess (deficiency) of Operating Receipts over (under) Operating Disbursements*. This gives us the Net *Operating* Revenue (loss) for each fund. After subtracting out Debt Service, and Operating Transfers we come to the *Net Change in Cash Balances* for each fund. This is the Net "Profit/ (Loss)" for each of the funds

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006

After adding the *Net Change in Cash Balances* to the *Cash Beginning Balances*, we have the new *Cash Ending Balance* for each of the funds.

The statement then also breaks down the *Cash Ending Balances* by Reserved and Unreserved.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

FINANCIAL HIGHLIGHTS

- The total revenues for all departments were \$1,634,648. This is an increase of \$160,712 or approximately 10.9 percent from the previous year's revenues of \$1,473,936. This is mostly due to establishing the Power Cost Adjustment effective June 2005 to help offset the increasing costs of purchasing kilowatts.
- The total disbursements for all departments were \$1,525,197. This is up \$151,562 or approximately 11.03 percent from the previous year's total expenses of \$1,373,635. Several items influenced this increase.
 - The cost of purchased power *increased* \$112,359 or approximately 20.05 percent due to annual contract changes, increase in kilowatts purchased from outside sources, and higher usage overall.
 - An additional \$42,462 was spent on necessary improvements in the electric distribution system and engineering possible large scale improvements to the electric distribution system.
- Revenues exceeded expenses by \$109,451. This is compared to a net increase the previous year of \$100,301. The ending fund balance on June 30, 2006 was \$874,550.

	Year Ended June 30,		\$	
	2006	2005	Difference	% Change
Program Receipts:				
Charges for Service:				
Electric	\$1,335,949	\$1,191,865	\$144,084	12.09%
Water	\$195,178	\$191,344	\$3,834	2.00%
Restricted Interest	\$7,089	\$4,484	\$2,605	58.10%
General Receipts:				
Un-restricted Interest	\$16,148	\$10,629	\$5,519	51.92%
Miscellaneous	\$80,284	\$75,614	\$4,670	6.18%
Total Receipts	\$1,634,648	\$1,473,936	\$160,712	10.90%

Disbursements:				
Operating Disbursements:				
Electric	\$1,127,542	\$971,998	\$155,543	16.00%
Water	150,492	127,704	22,788	17.84%
Capital Projects	92,845	120,193	-27,348	-22.75%
Debt Service	154,320	153,740	580	0.38%

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006

Total Disbursements	\$1,525,197	\$1,373,635	\$151,563	11.03%
Increase (Decrease) in Cash Balance	\$109,451	\$100,301	\$9,149	9.12%
Cash Basis Net Assets Beginning of Year	765,099	664,798		
Cash Basis Net Assets End of Year	\$874,550	\$765,099		

2006 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved on May 2006. The amendment allowed for the following changes:

Electric department

Revenue:

- Increased Charges for Services due to implementing the Power Cost Adjustment.
- Increased Use of Money and Property due to rising interest rates.

Expenses:

- Additional engineering to study electric distribution system and possible large scale improvements.
- Increased purchased power costs
- Additional outside services and maintenance costs.

Water department

Revenue:

- Decreased revenue as we did not transfer in funds. Originally budgeted for a pole building to replace well #2 building that had fallen into disrepair. This well is in the flood-way and a new building is not permitted.

Expenses:

- Increased costs to engineer new well head and demolish building surrounding well #2. This was to meet DNR standards and FEMA guidelines since this well is in the flood way.
- Increased expenses for water hydrant replacements.
- Increased expenses to have backup pumps for all wells. This was also to meet DNR standards.

DEBT ADMINISTRATION

As of June 30, 2006 the Utilities had an obligation of \$1,060,000 in Revenue Bonds outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000. 2006 was the fifth year of payments in a 15-year payment schedule.

NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members considered many factors when setting the fiscal year 2007 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 125% of that year's scheduled Bond Payment. The bond payment due in 2007 is \$154,595 that means we have to have Net Operating Revenues in the Electric Department of at least \$193,244. Even with the purchased power contract scheduled to increase an additional 7.07%, and forecasted

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006

increases in insurance; the budgeted Net Operating Revenues were sufficient to cover the Bond Covenant requirement. Electric rates were not expected to be increased during the 2007 fiscal year.

- A water rate study was in progress to determine the increase in water rates so that necessary improvements could be made to the water distribution system.
- Funds were budgeted for construction of a new storage building to meet the growing storage needs of La Porte City Utilities.
- The remaining funds were budgeted fairly consistent compared to those of the 2006 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2007 budget.

2007 BUDGET SUMMARY

	ELECTRIC	METER DEPOSIT	WATER	CAPITAL IMPRV RSV	DEBT SERVICE	DIESEL ENG IMPROVEMENT	DIESEL ENG RESERVE	TOTAL
REVENUE								
USE OF MONEY & PROP	15,285	370	2,430	4,600		0	6,705	29,390
CHARGES FOR SVCS	1,326,960		195,933					1,522,893
MISCELLANEOUS	51,545		15,921					67,466
OTHER FINANCING	0	0	0	27,700	154,595	0	0	182,295
TOTAL REVENUE	1,393,790	370	214,284	32,300	154,595	0	6,705	1,802,044

EXPENDITURES								
HOME & COMMUNITY	1,273,225		190,815		154,595			1,618,635
TOTAL EXPENDITURES	1,273,225	0	190,815	0	154,595	0	0	1,618,635
LESS:								
DEBT SERVICE					154,595			154,595
CAPITAL PROJECTS	100,912		34,088					135,000
NET OPERATING EXP	1,172,313	0	156,727	0	0	0	0	1,329,040
TRANSFERS OUT	162,595	0	19,700	0		0	0	182,295
TOTAL EXP/TRANSFERS	1,435,820	0	210,515	0	154,595	0	0	1,800,930

PROFIT/LOSS	(42,030)	370	3,769	32,300	0	0	6,705	1,114
BEGINNING BALANCE	446,670	8,712	65,621	114,159	0	10,000	160,627	805,789
ENDING BALANCE	404,640	9,082	69,390	146,459	0	10,000	167,332	806,903

CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Christy Wylie, La Porte City Utilities Bookkeeper, 200 Main Street, La Porte City, Iowa.

Basic Financial Statements

La Porte City Utilities

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

Functions / Programs:	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	
Business type activities:				
Electric	\$ 1,160,152	1,335,950	-	175,798
Water	210,725	195,178	-	(15,547)
Debt Service	154,320	-	-	(154,320)
Non-major funds	-	-	7,088	7,088
Total business type activities	<u>1,525,197</u>	<u>1,531,128</u>	<u>7,088</u>	<u>13,019</u>
General Receipts:				
Unrestricted interest on investments				16,148
Miscellaneous				80,284
Transfers				-
Total general receipts and transfers				<u>96,432</u>
Change in cash basis net assets				109,451
Cash basis net assets beginning of year				<u>765,099</u>
Cash basis net assets end of year				<u>\$ 874,550</u>
Cash Basis Net Assets				
Restricted:				
Other purposes				267,681
Unrestricted				<u>606,869</u>
Total cash basis net assets				<u>\$ 874,550</u>

See notes to financial statements

La Porte City Utilities

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds				Total
	Electric	Water	Debt Service Reserve	Other Nonmajor Proprietary Funds	
Operating receipts:					
Use of money and property	\$ 14,176	1,972	-	7,088	23,236
Charges for service	1,335,950	195,178	-	-	1,531,128
Miscellaneous	65,218	15,066	-	-	80,284
Total operating receipts	1,415,344	212,216	-	7,088	1,634,648
Operating disbursements:					
Business type activities	1,160,152	210,725	-	-	1,370,877
Total operating disbursements	1,160,152	210,725	-	-	1,370,877
Excess (deficiency) of operating receipts over (under) operating disbursements	255,192	1,491	-	7,088	263,771
Non-operating receipts (disbursements):					
Debt service	-	-	(154,320)	-	(154,320)
Total non-operating receipts (disbursements)	-	-	(154,320)	-	(154,320)
Excess (deficiency) of receipts over (under) disbursements	255,192	1,491	(154,320)	7,088	109,451
Operating transfers in/(out)	(150,935)	(5,000)	154,320	1,615	-
Net change in cash balances	104,257	(3,509)	-	8,703	109,451
Cash balances beginning of year	444,640	61,481	-	258,978	765,099
Cash balances end of year	548,897	57,972	-	267,681	874,550
Cash Basis Fund Balances					
Unreserved	548,897	57,972	-	-	606,869
Reserved	-	-	-	267,681	267,681
Total cash basis fund balances	\$ 548,897	57,972	-	267,681	874,550

See notes to financial statements

La Porte City Utilities

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 14)	\$ 874,550
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The utility does not have an internal service fund.
Therefore there are no reconciling items.

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Cash basis net assets of business type activities (page 13)	<u>\$ 874,550</u>
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Net change in cash balances (page 14)	\$ 109,451
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The utility does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of business type activities (page 13)	<u>\$ 109,451</u>
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See notes to financial statements

La Porte City Utilities

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

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

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

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

The Debt Service Reserve Fund accounts for the principal and interest payments made for the Utility's Revenue Bonds.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, no disbursements exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Utility's investments at June 30, 2006 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	\$ 487,704	487,704	Various Dates

The Utility held investments in credit unions which are valued at \$442,704 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$149,704 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Revenue Bonds Payable

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

Year Ending June 30,	Utility Revenue	
	Principal	Bond Interest
2007	\$ 95,000	59,195
2008	100,000	54,160
2009	105,000	48,810
2010 - 2015	760,000	159,620
Total	\$ 1,060,000	321,785

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$11,759, \$10,709, and \$10,658, respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility’s approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the Electric and Water Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,251
Sick leave	<u>3,786</u>
Total	<u>\$ 11,037</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Electric Sinking Fund	\$ 154,320
Electric	Diesel Engine Reserve	11,385
Capital Improvement Reserve	Electric	8,000
Capital Improvement Reserve	Water	5,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

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

Required Supplementary Information

La Porte City Utilities

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 23,236	12,500	23,305	(69)
Charges for service	1,531,128	1,400,780	1,501,676	29,452
Miscellaneous	80,284	74,560	75,515	4,769
Total receipts	1,634,648	1,487,840	1,600,496	34,152
Disbursements:				
Business type activities	1,525,197	1,447,150	1,613,309	88,112
Total disbursements	1,525,197	1,447,150	1,613,309	88,112
Excess (deficiency) of receipts over disbursements	109,451	40,690	(12,813)	(53,960)
Other financing sources (uses), net	-	-	-	-
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	109,451	40,690	(12,813)	(53,960)
Balances beginning of year	765,099	716,333	765,099	664,798
Balances end of year	\$ 874,550	757,023	752,286	610,838

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary 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. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$154,225. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

La Porte City Utilities

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

	Proprietary Funds				
	Meter Deposits	Capital Improvement Reserve	Diesel Engine Reserve	Diesel Engine Improvement	Total
Receipts:					
Use of money and property	\$ 292	2,846	3,950	-	7,088
Total receipts	292	2,846	3,950	-	7,088
Disbursements:					
Business type activities	-	-	-	-	-
Total disbursements	-	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	292	2,846	3,950	-	7,088
Other financing sources:					
Operating transfers in/(out)	-	13,000	(11,385)	-	1,615
Net change in cash balances	292	15,846	(7,435)	-	8,703
Cash balances beginning of year	8,637	83,594	156,747	10,000	258,978
Cash balances end of year	8,929	99,440	149,312	10,000	267,681
Cash Basis Fund Balances					
Reserved for debt service:	-	-	-	-	-
Reserved:					
Capital projects fund	-	99,440	149,312	10,000	258,752
Permanent fund	8,929	-	-	-	8,929
Total cash basis fund balances	\$ 8,929	99,440	149,312	10,000	267,681

See accompanying independent auditor's report

La Porte City Utilities
 Schedule of Indebtedness
 Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
Utility Revenue Bonds - Electric fund	Mar 1, 2000	5.0 - 5.8%	\$ 1,465,000	<u>\$ 1,150,000</u>

See accompanying independent auditor's report

Schedule 2

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-	90,000	1,060,000	63,920	-

La Porte City Utilities

Bond and Note Maturities

June 30, 2006

Year Ending June 30,	Utility Revenue Bonds	
	Electric	
	Issued Mar 1, 2000	
	Interest Rates	Amount
2007	5.30%	95,000
2008	5.35%	100,000
2009	5.40%	105,000
2010	5.50%	110,000
2011	5.60%	115,000
2012	5.65%	120,000
2013	5.70%	130,000
2014	5.75%	140,000
2015	5.80%	145,000
		<u>\$ 1,060,000</u>

See accompanying independent auditor's report

La Porte City Utilities
 Schedule of Receipts by Source and Disbursements By Function
 All Proprietary Funds

For the Last Five Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts:					
Use of money and property	\$ 23,236	15,113	12,281	17,041	31,363
Charges for service	1,531,128	1,383,209	1,255,468	1,170,925	1,031,824
Miscellaneous	80,284	75,614	88,088	7,579	124,217
Total	<u>1,634,648</u>	<u>1,473,936</u>	<u>1,355,837</u>	<u>1,195,545</u>	<u>1,187,404</u>
Disbursements:					
Business-type	1,370,877	1,219,895	1,104,848	1,252,566	1,028,562
Debt service	154,320	153,740	152,760	151,285	155,035
Total	<u>\$ 1,525,197</u>	<u>1,373,635</u>	<u>1,257,608</u>	<u>1,403,851</u>	<u>1,183,597</u>

See accompanying independent auditor's report

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 Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated October 30, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 La Porte City Utilities's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 La Porte City Utilities's 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 II of the accompanying Schedule of Findings and Questioned Costs.

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 II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the La Porte City Utilities's 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 or other matters 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 III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

October 30, 2006

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 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.

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

Response – We will consider this.

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

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted in the business type activities functions.
- III-B-06 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-06 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-06 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.
- III-E-06 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-06 Board of Trustees Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-06 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 Utility's investment policy. However, we noted that a former employee's name is still listed as an authorized check signer on Veridian Community Credit Union records.

Recommendation – Remove the former employee's name as an authorized check signer from the two financial institution's records.

Response – We are working to correct this.

Conclusion – Response accepted.

La Porte City Utilities

Staff

This audit was performed by:

Donald A. Snitker, CPA, Partner
Gina E. Trimble, CPA, Senior Auditor