

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA  
KEOSAUQUA, IOWA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

Anderson, Larkin & P.C.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

TABLE OF CONTENTS  
JUNE 30, 2006

	<u>PAGE</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
	<u>EXHIBIT</u>
BASIC FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	A 6
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	B 7
STATEMENT OF CASH FLOWS	C 8
NOTES TO FINANCIAL STATEMENTS	9-12
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	13-14
SCHEDULE OF FINDINGS	15-16

Anderson, Jarvin & Co. P.C.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

OFFICIALS  
JUNE 30, 2006

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
George Manning	Member	December 31, 2008
Sam Polonski	Member	December 31, 2010
Ross Boyd	Chairman	December 31, 2006

Anderson, Larkin & Co. P.C.



ANDERSON, LARKIN & CO. P.C.  
Certified Public Accountants  
*"Achieving your goals with our knowledge"*

Kenneth E. Crosser, CPA  
April D. Hammack, CPA  
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)  
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)  
Joseph C. Larkin, CPA (1960-1990)

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua  
Keosauqua, Iowa

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2006. These financial statements are the responsibility of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa at June 30, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2006 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
August 26, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, 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. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

The Utility's operating revenues increased 7.5% or \$69,786, from fiscal year 2005 to fiscal year 2006. Increases in revenue from the sale of electricity accounted for the majority of this increase.

The Utility's operating expenses increased 3.1% or \$26,764, from fiscal year 2005 to fiscal year 2006. This increase in operating expenses is due primarily to an increase in the cost of purchased power.

The Utility's net assets increased 5.6% or \$128,731, from fiscal year 2005 to fiscal year 2006.

### USING THIS ANNUAL REPORT

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, operates as a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's basic financial statements. 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 Utility's financial activities.

The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two 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 Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

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

### FINANCIAL ANALYSIS OF THE UTILITY

#### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for fiscal year 2006 total approximately \$2,436,000. This compares to approximately \$2,307,000 for fiscal year 2005. A summary of the Utility's net assets as of June 30, 2006 and 2005 is presented below.

NET ASSETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,299,617	\$ 1,259,065
Capital assets at cost, less accumulated depreciation	1,189,982	1,051,807
Other assets	<u>25,000</u>	<u>76,669</u>
Total assets	2,514,599	2,387,541
Current liabilities	<u>78,825</u>	<u>80,498</u>
Net assets : Unrestricted	\$ <u>2,435,774</u>	\$ <u>2,307,043</u>

100% of the Utility's net assets are unrestricted and can be used to meet the Utility's obligations as they come due.

**Statements of Revenues, Expenses and Changes in Net Assets**

Operating revenues are received from the sale of electricity to the residents and business owners of the City of Keosauqua. Operating expenses are expenses paid to run the Utility. Non-operating revenues and expenses include interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2006 and 2005 is presented below:

CHANGES IN NET ASSETS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenue:		
Sale of electricity	\$ 968,733	\$ 902,536
Late payment charges	1,821	1,045
Miscellaneous income	<u>33,139</u>	<u>30,326</u>
Total operating revenue	<u>1,003,693</u>	<u>933,907</u>
Operating expenses:		
Purchase of power	595,212	572,248
Salaries	89,377	84,574
Payroll taxes	6,683	6,586
IPERS	5,059	4,950
Group insurance	30,475	28,472
Employee education	600	673
Line maintenance	35,711	47,402
Meter expense	9,070	1,684
Property and liability insurance	7,398	9,435
Truck expenses	5,565	4,903
Utilities	2,547	2,643
Repairs and maintenance	714	405
Bookkeeping	11,431	10,989
Legal and accounting	6,475	6,345
Office supplies	4,680	4,830
Trustee fees	360	336
Association dues and assessments	4,545	5,381
Miscellaneous	3,428	2,318
Community betterment expenses	5,870	10,470
Depreciation	63,880	57,557
Energy efficiency	<u>3,019</u>	<u>3,134</u>
Total operating expenses	<u>892,099</u>	<u>865,335</u>
Operating income	<u>111,594</u>	<u>68,572</u>
Non-operating revenues:		
Interest income	17,137	12,642
Gain on disposal of fixed assets	<u>-</u>	<u>27,170</u>
Total non-operating revenues	<u>17,137</u>	<u>39,812</u>
Change in net assets	128,731	108,384
Net assets - Beginning of year	<u>2,307,043</u>	<u>2,198,659</u>
Net assets - End of year	\$ <u>2,435,774</u>	\$ <u>2,307,043</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal year 2006, operating revenues increased 7.5% or \$69,786, primarily due to a increase in the amount of electricity sold to customers. Operating expenses increased 3.1% or \$26,764, primarily due to an increase in the cost of power purchased

### **Statement of Cash Flows**

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes the sale of electricity and other receipts reduced by payments to suppliers and employees. Cash used from capital and related financing activities includes the purchase of capital assets. Cash provided by investing activities includes interest income and the purchase of certificates of deposit.

### **CAPITAL ASSETS**

At June 30, 2006, the Utility had \$1,837,619 invested in capital assets, net of accumulated depreciation of \$647,637. Depreciation charges totaled \$63,880 for fiscal year 2006. More detailed information about the Utility's capital assets is presented in the Notes to Financial Statements.

### **ECONOMIC FACTORS**

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utility's distribution system requires constant maintenance and upkeep

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost

The Utility anticipates the current fiscal year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues

### **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Keosauqua Municipal Light and Power, P.O. Box 216, Keosauqua, Iowa.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

STATEMENT OF NET ASSETS  
JUNE 30, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 931,171
Certificates of deposit	270,406
Accounts receivable	89,772
Interest receivable	1,284
Prepaid insurance	<u>6,984</u>
Total current assets	<u>1,299,617</u>

PROPERTY AND EQUIPMENT:

Land	3,423
Buildings	80,004
Distribution system	1,574,536
Equipment and vehicles	<u>179,656</u>
Total	1,837,619
Less accumulated depreciation	<u>647,637</u>
Book value of property and equipment	<u>1,189,982</u>

OTHER ASSETS:

Notes receivable	<u>25,000</u>
------------------	---------------

TOTAL ASSETS 2,514,599

CURRENT LIABILITIES:

Accounts payable	62,335
Accrued state withholding	1,190
Accrued sales tax	2,226
Customer meter deposits	8,827
Compensated absences	<u>4,247</u>

TOTAL LIABILITIES 78,825

NET ASSETS:

Invested in capital assets	1,189,982
Unrestricted	<u>1,245,792</u>

TOTAL NET ASSETS \$ 2,435,774

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006

OPERATING REVENUE:

Sale of electricity	\$ 968,733
Late payment charges	1,821
Miscellaneous income	33,139
Total operating revenue	<u>1,003,693</u>

OPERATING EXPENSES:

Purchase of power	595,212
Salaries	89,377
Payroll taxes	6,683
IPERS	5,059
Group insurance	30,475
Employee education	600
Line maintenance	35,711
Meter expense	9,070
Property and liability insurance	7,398
Truck expenses	5,565
Utilities	2,547
Repairs and maintenance	714
Bookkeeping	11,431
Legal and accounting	6,475
Office supplies	4,680
Trustee fees	360
Association dues and assessments	4,545
Miscellaneous	3,428
Community betterment expenses	5,870
Depreciation	63,880
Energy efficiency	3,019
Total operating expenses	<u>892,099</u>

OPERATING INCOME 111,594

NONOPERATING REVENUE:

Interest income	<u>17,137</u>
-----------------	---------------

CHANGE IN NET ASSETS 128,731

NET ASSETS - BEGINNING OF YEAR 2,307,043

NET ASSETS - END OF YEAR \$ 2,435,774

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 959,604
Cash received from other operating receipts	33,139
Cash paid to suppliers for goods and services	(702,115)
Cash paid for personal services	<u>(130,740)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>159,888</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of property and equipment	<u>(202,055)</u>
------------------------------------	------------------

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	16,762
Purchase of certificates of deposit	<u>(6,860)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>9,902</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (32,265)

CASH AND CASH EQUIVALENTS - Beginning of year 963,436

CASH AND CASH EQUIVALENTS - End of year \$ 931,171

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES

Operating income	\$ <u>111,594</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	63,880
Change in assets and liabilities:	
Increase in accounts receivable	(12,825)
Increase in prepaid insurance	(1,088)
Decrease in accounts payable	(5,078)
Increase in accrued state withholding	72
Increase in accrued sales tax	76
Increase in customer meter deposits	1,875
Increase in compensated absences	<u>1,382</u>
Total adjustments	<u>48,294</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 159,888</u>

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, is an electrical utility plant located in the City of Keosauqua, Iowa. The Utility purchases all of its power from the Southern Iowa Electric Co-op. It sells its services to the citizens, businesses and the City of Keosauqua, Iowa.

The financial statements of the Utility are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has no component units which meet the Governmental Accounting Standards Board criteria.

Keosauqua Municipal Light and Power is presented as a Component Unit in the City of Keosauqua's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a three-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than six months. Cash investments not meeting the definition of cash equivalents at June 30, 2006 include certificates of deposit of \$270,406.

Accounts Receivable – The Utility grants credit to customers, substantially all of whom are located in Keosauqua, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts was used, it would not have a material effect on the financial statements.

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year:

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 1,000
Distribution system	500
Equipment and vehicles	500

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-25
Distribution system	30-40
Equipment and vehicles	5-10

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2006.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates

NOTE 2 – CASH AND INVESTMENTS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, 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 Municipal 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 Municipal Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No 40

NOTE 3 - CAPITAL ASSETS

A summary of fixed assets at June 30, 2006 is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 3,423	\$ -	\$ -	\$ 3,423
Capital assets, being depreciated:				
Buildings	80,004	-	-	80,004
Distribution system	1,372,481	202,055	-	1,574,536
Equipment and vehicles	179,656	-	-	179,656
Total capital assets being depreciated	<u>1,632,141</u>	<u>202,055</u>	<u>-</u>	<u>1,834,196</u>
Less accumulated depreciation for:				
Buildings	57,588	1,785	-	59,373
Distribution system	484,682	44,418	-	529,100
Equipment and vehicles	41,487	17,677	-	59,164
Total accumulated depreciation	<u>583,757</u>	<u>63,880</u>	<u>-</u>	<u>647,637</u>
Total capital assets being depreciated, net	<u>1,048,384</u>	<u>138,175</u>	<u>-</u>	<u>1,186,559</u>
Capital assets, net	<u>\$ 1,051,807</u>	<u>\$ 138,175</u>	<u>\$ -</u>	<u>\$ 1,189,982</u>

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The Municipal 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 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 Municipal Utility is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$5,059, \$4,950 and \$4,819 respectively, equal to the required contributions for each year.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Utility sells electricity to and purchases bookkeeping services and water from the City of Keosauqua. The following is a summary of the transactions and balances for the year ended June 30, 2006:

Electricity paid by the City of Keosauqua to the Utility	\$ 7,063
Accounts receivable from the City of Keosauqua	418
Bookkeeping expense paid by the Utility to the City of Keosauqua	11,431
Water fees paid by the Utility to the City of Keosauqua	270
Accounts payable due to the City of Keosauqua	1,085

In addition, the Utility purchases mowing services from Boyd Mowing, which is owned by a Utility board member. During the year ended June 30, 2006, the Utility paid \$490 for these services. The Utility has an accounts payable to Boyd Mowing of \$60 at June 30, 2006. During the year ended June 30, 2006, the Utility made a \$5,000 contribution to the City of Keosauqua for community betterment purposes.

NOTE 6 – 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 7 – MAJOR CUSTOMERS

Sales to three major customers were \$330,875 for the year ended June 30, 2006, representing 34.2% of the total sales for the year. At June 30, 2006, amounts due from these customers included in trade accounts receivable were \$30,183.

NOTE 8 – MAJOR SUPPLIERS

For the year ended June 30, 2006, the Utility purchased power from one supplier totaling \$595,212.



ANDERSON, LARKIN & CO. P.C.  
Certified Public Accountants  
*"Achieving your goals with our knowledge"*

Kenneth E. Crosser, CPA  
April D. Hammack, CPA  
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)  
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)  
Joseph C. Larkin, CPA (1960-1990)

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

Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua  
Keosauqua, Iowa

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 26, 2006. 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 Utility's 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 Utility'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 the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-06.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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.

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 and employees of the Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
August 26, 2006

Anderson, Larkin & Co. P.C.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

Reportable Conditions:

I-A-06 Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person

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

Response - This is a continuing problem for us, but an entity the size of our Utility does not have the finances to segregate the duties as recommended. The Board of Trustees will continue to monitor operations on a monthly basis.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were reported.

Part II: Other Findings Related to Statutory Reporting

II-A-06 Questionable Expenses - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-B-06 Travel Expense - No expenditures of money for travel expenses of spouses of Utility officials or employees were noted

II-C-06 Business Transactions - Business transactions between the Utility and Utility officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ross Boyd Board of Trustees Member, Owner of Boyd Mowing	Mowing services	\$ <u>490</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Utility and the Board member do not appear to represent conflicts of interest since total transactions were less than \$1,500 per year.

II-D-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 the coverage is adequate for current operations.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

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

- II-E-06 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
  
- II-F-06 Deposits and Investments - No instances of noncompliance with the deposits and investments provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
  
- II-G-06 Revenue Notes - The Utility has no revenue notes outstanding.

Anderson, Larkin & Co. P.C.