

# **Municipal Utilities of the City of Remsen**

Remsen, Iowa

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Independent Auditor's Reports  
Basic Financial Statements and  
Supplementary Information  
Schedule of Findings and Responses

June 30, 2006

# Municipal Utilities of the City of Remsen

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## Municipal Utilities of the City of Remsen

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Kolker	Chairman	January 2008
Stephen Matgen	Trustee	January 2010
Tom Bacon	Trustee	January 2012
Ron Mayer	Superintendent	



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

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## **Independent Auditor's Report**

To the Honorable Mayor and Board of Trustees  
Municipal Utilities of the City of Remsen  
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, 2006, 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' 2005 financial statements and, in our report dated September 28, 2005, 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, 2006, 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.



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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, 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 23 through 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 on pages 26 through 32 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 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.

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

Sioux City, Iowa  
October 6, 2006

## **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, 2006. We encourage readers to consider this information in conjunction with the financial statements, which follow.

### **2006 Financial Highlights**

- The Municipal Utilities' assets exceed liabilities by \$4,243,918 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,983,280.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$2,731,443 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Nets assets of \$2,502 are restricted by constraints imposed from outside the Municipal Utilities such as debt covenants.
  - (3) Unrestricted net assets of \$1,509,973 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 increased by \$260,638. The increase was due to a transfer from the City of Remsen for which the Municipal Utilities is a component unit of \$99,584 and an increase in electric rates charged to customers.

### **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 \$4,243,918. This is a \$260,638 increase over last year's net assets of \$3,983,280. The following table provides a summary of the net assets at June 30:

	<u>2006</u>	<u>2005</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Current and other assets	\$ 1,754,175	\$ 1,528,431	\$ 225,744	14.77%
Capital assets	3,004,606	2,888,881	115,725	4.01%
Total assets	<u>4,758,781</u>	<u>4,417,312</u>	<u>341,469</u>	<u>7.73%</u>
Long-term liabilities	228,163	272,684	(44,521)	-16.33%
Other liabilities	286,700	161,348	125,352	77.69%
Total liabilities	<u>514,863</u>	<u>434,032</u>	<u>80,831</u>	<u>18.62%</u>
Net assets:				
Invested in capital assets, net of related debt	2,731,443	2,571,197	160,246	6.23%
Restricted for debt service	2,502	2,501	1	0.04%
Unrestricted	1,509,973	1,409,582	100,391	7.12%
Total net assets	<u>\$ 4,243,918</u>	<u>\$ 3,983,280</u>	<u>\$ 260,638</u>	<u>6.54%</u>

The Municipal Utilities reported positive balances in net assets for all the business-type activities. Net assets increased \$260,638 due primarily to a transfer from the City of Remsen for which the Municipal Utilities is a component unit of \$99,584 and an increase in electric rates charged to customers.

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:

	2006	2005	Amount Change	Percentage Change
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 2,243,079	\$ 1,968,049	\$ 275,030	13.97%
General revenues:				
Unrestricted interest	38,722	26,492	12,230	46.16%
Gain on sale of assets	-	7,505	(7,505)	-100.00%
Total revenues	<u>2,281,801</u>	<u>2,002,046</u>	<u>279,755</u>	<u>13.97%</u>
<b>Expenses:</b>				
Water	187,401	211,912	(24,511)	-11.57%
Electric	853,089	863,071	(9,982)	-1.16%
Gas	1,016,638	911,721	104,917	11.51%
Water reserve	13,619	14,987	(1,368)	-9.13%
Total expenses	<u>2,070,747</u>	<u>2,001,691</u>	<u>69,056</u>	<u>3.45%</u>
<b>Increase in net assets before transfers</b>				
	211,054	355	210,699	59351.83%
Transfers from (to) City of Remsen	49,584	(54,250)	103,834	-191.40%
Change in net assets	<u>260,638</u>	<u>(53,895)</u>	<u>314,533</u>	<u>583.60%</u>
Net assets - beginning	3,983,280	4,037,175	(53,895)	-1.33%
Net assets - ending	<u>\$ 4,243,918</u>	<u>\$ 3,983,280</u>	<u>\$ 260,638</u>	<u>6.54%</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 \$49,792 from the City of Remsen and reduction in repairs and maintenance costs contributed primarily to the increase in net assets of \$76,296.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric system. The Municipal Utilities Board increase electric rates in August 2005. This increase contributed primarily to the increase in net assets of \$146,740.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. Transfers totaling \$49,792 from the City of Remsen contributed primarily to the increase in net assets of \$36,721.

## **Budgetary Highlights**

The proprietary fund budget for the fiscal year 2006 was approximately \$1.81 million. This was a decrease of approximately \$600,000 over the previous year amended budget. In 2005, the budget included amounts for the construction of a utility department building, transformers, platform truck, and water main improvements totaling approximately \$350,000. The remaining \$250,000 decrease relates to an over estimate of operating disbursements in prior year.

Disbursements during the year ending June 30, 2006 exceeded the amounts budgeted in the business-type activities by \$321,588. The Municipal Utilities should have amended its budget to cover the costs of the \$120,000 for gas line improvements, \$33,000 for the building parking lot, and approximately a \$100,000 in increased gas rates.

## **Capital Assets and Debt Administration**

### *Capital Assets*

The Municipal Utilities' investment in capital assets, net of accumulated depreciation as of June 30, 2006 was \$3,004,606. The total increase in this net investment was 4.01 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>2006</u>	<u>2005</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Depreciable assets:				
Utility systems	2,827,005	2,718,137	108,868	4.01%
Equipment	35,151	55,821	(20,670)	-37.03%
Automotive equipment	53,732	26,205	27,527	105.04%
Total	<u>\$ 3,004,606</u>	<u>\$ 2,888,881</u>	<u>\$ 115,725</u>	<u>4.01%</u>

### *Long-term Debt*

At the end of the fiscal year, the Municipal Utilities had total bonded debt outstanding of \$275,000. 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 2007 budget and utility rates that will be charged for various utilities. One of these factors is the state of the economy.

The Municipal Utilities, component unit, is not expected to see an increase in electric rates for the next fiscal year. It has restructured its natural gas rate to charge customers its actual monthly costs. In the future, 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 2007. Amounts available for appropriation in the operating budget for all Municipal Utilities' funds are \$2.4 million. Budgeted disbursements increased by approximately \$600,000 from final 2006 budget due to higher purchased utility costs. Again, the City feels it has restructured its rates in the fiscal year 2006 to absorb these increased costs.

### **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, Utility Operations Director, P.O. Box 510, Remsen, IA 51050.

# **FINANCIAL STATEMENTS**

**Municipal Utilities of the City of Remsen**  
**Statement of Net Assets**  
**June 30, 2006**  
**(With Comparative Totals For June 30, 2005)**

	<u>2006</u>	<u>2005</u>
<b>Assets:</b>		
Cash	\$ 1,218,421	\$ 1,036,923
Restricted cash	34,187	29,970
Receivables	196,814	176,966
Inventories	81,439	63,190
Prepaid insurance	43,598	43,788
Investments	179,716	177,594
	<hr/> 1,754,175	<hr/> 1,528,431
Capital assets:		
Land and improvements not being depreciated	88,718	88,718
Other capital assets	7,151,553	6,813,183
Less: accumulated depreciation	(4,235,665)	(4,013,020)
Total capital assets	<hr/> 3,004,606	<hr/> 2,888,881
Total assets	<hr/> 4,758,781	<hr/> 4,417,312
<b>Liabilities:</b>		
Accounts payable and accrued expenses	239,897	114,190
Long-term liabilities:		
Due within one year:		
Bonds, capital leases and contracts	45,000	45,000
Accrued interest	1,803	2,158
Due in more than one year:		
Bonds, capital leases and contracts	228,163	272,684
Total liabilities	<hr/> 514,863	<hr/> 434,032
<b>Net assets:</b>		
Invested in capital assets, net of related debt	2,731,443	2,571,197
Restricted for debt service	2,502	2,501
Unrestricted	1,509,973	1,409,582
Total net assets	<hr/> <hr/> \$ 4,243,918	<hr/> <hr/> \$ 3,983,280

**Municipal Utilities of the City of Remsen**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

<u>Functions/Programs</u>	<b>Program Revenue</b>				<b>Net (Expense)</b>
<b>Expenses</b>	<b>Charges for</b>	<b>Operating</b>	<b>Capital Grants</b>	<b>and</b>	<b>Revenue</b>
	<b>Services</b>	<b>Grants and</b>	<b>Contributions</b>	<b>Contributions</b>	<b>Revenue</b>
	<b>Expenses</b>	<b>Services</b>	<b>Contributions</b>	<b>Contributions</b>	<b>Revenue</b>
Business-type activities:					
Water	\$ 187,401	\$ 226,222	\$ -	\$ -	\$ 38,821
Electric	853,089	1,003,882	-	-	150,793
Gas	1,016,638	1,012,975	-	-	(3,663)
Other business-type activities	13,619	-	-	-	(13,619)
Total business-type activities	\$ 2,070,747	\$ 2,243,079	\$ -	\$ -	172,332
 <b>General revenues:</b>					
Unrestricted investment earnings					38,722
Transfers to City of Remsen					49,584
Total general revenues and transfers					88,306
Change in net assets					260,638
Net assets - beginning					3,983,280
Net assets - ending					\$ 4,243,918

**Municipal Utilities of the City of Remsen**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**  
**(With Comparative Totals For June 30, 2005)**

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2006</u>	<u>Total 2005</u>
<b>Assets:</b>						
Current assets:						
Cash	\$ 60,548	\$ 731,859	\$ 423,357	\$ 2,657	\$ 1,218,421	\$ 1,036,923
Accounts receivable	23,800	96,326	66,426	-	186,552	169,837
Due from other funds	-	-	-	-	-	29,963
Accrued interest receivable	37	5,573	4,652	-	10,262	7,129
Inventories	4,701	69,885	6,853	-	81,439	63,190
Prepaid insurance	8,615	17,755	17,228	-	43,598	43,788
Total current assets	<u>97,701</u>	<u>921,398</u>	<u>518,516</u>	<u>2,657</u>	<u>1,540,272</u>	<u>1,350,830</u>
Restricted assets:						
Cash	-	-	-	34,187	34,187	29,970
Non-current assets:						
Investments	-	179,716	-	-	179,716	177,594
Capital assets:						
Land and improvements	82,218	-	6,500	-	88,718	88,718
Utility system	2,472,023	3,731,702	601,856	-	6,805,581	6,507,887
Equipment	39,285	158,348	148,339	-	345,972	305,296
Less: accumulated depreciation	(970,306)	(2,858,422)	(406,937)	-	(4,235,665)	(4,013,020)
Total non-current assets	<u>1,623,220</u>	<u>1,211,344</u>	<u>349,758</u>	<u>-</u>	<u>3,184,322</u>	<u>3,066,475</u>
Total assets	<u>1,720,921</u>	<u>2,132,742</u>	<u>868,274</u>	<u>36,844</u>	<u>4,758,781</u>	<u>4,447,275</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	23,688	126,185	58,339	-	208,212	86,721
Accrued interest payable	1,803	-	-	-	1,803	2,158
Due to other funds	-	-	-	-	-	29,963
Meter deposits	-	-	-	31,685	31,685	27,469
Bonds, notes and loans payable	45,000	-	-	-	45,000	45,000
Total current liabilities	<u>70,491</u>	<u>126,185</u>	<u>58,339</u>	<u>31,685</u>	<u>286,700</u>	<u>191,311</u>
Non-current liabilities:						
Bonds, notes and loans payable	228,163	-	-	-	228,163	272,684
Total non-current liabilities	<u>228,163</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,163</u>	<u>272,684</u>
Total liabilities	<u>298,654</u>	<u>126,185</u>	<u>58,339</u>	<u>31,685</u>	<u>514,863</u>	<u>463,995</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,350,057	1,031,628	349,758	-	2,731,443	2,571,197
Restricted for debt service	-	-	-	2,502	2,502	2,501
Unrestricted	72,210	974,929	460,177	2,657	1,509,973	1,409,582
Total net assets	<u>\$ 1,422,267</u>	<u>\$ 2,006,557</u>	<u>\$ 809,935</u>	<u>\$ 5,159</u>	<u>\$ 4,243,918</u>	<u>\$ 3,983,280</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**  
**(With Comparative Totals For June 30, 2005)**

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2006</u>	<u>Total 2005</u>
<b>Operating revenues:</b>						
Charges for services	\$ 226,222	\$ 1,003,882	\$ 1,012,975	\$ -	\$ 2,243,079	\$ 1,968,049
Total operating revenues	<u>226,222</u>	<u>1,003,882</u>	<u>1,012,975</u>	<u>-</u>	<u>2,243,079</u>	<u>1,968,049</u>
<b>Operating expenses:</b>						
Personal services	31,009	114,120	111,826	-	256,955	263,633
Contractual services	13,597	6,545	3,771	-	23,913	91,238
Utilities	17,693	9,080	1,017	-	27,790	22,158
Repairs and maintenance	-	11,886	1,466	-	13,352	15,143
Other supplies and expenses	40,028	552,936	853,442	-	1,446,406	1,332,668
Insurance claims and expenses	13,065	26,393	26,130	-	65,588	50,651
Depreciation	71,530	132,129	18,986	-	222,645	210,734
Total operating expenses	<u>186,922</u>	<u>853,089</u>	<u>1,016,638</u>	<u>-</u>	<u>2,056,649</u>	<u>1,986,225</u>
Operating income (loss)	<u>39,300</u>	<u>150,793</u>	<u>(3,663)</u>	<u>-</u>	<u>186,430</u>	<u>(18,176)</u>
<b>Non-operating revenues (expenses):</b>						
Interest and investment revenue	1,282	20,947	15,592	901	38,722	26,492
Interest expense	-	-	-	(13,619)	(13,619)	(14,987)
Miscellaneous expenses	(479)	-	-	-	(479)	(479)
Total non-operating revenue (expenses)	<u>803</u>	<u>20,947</u>	<u>15,592</u>	<u>(12,718)</u>	<u>24,624</u>	<u>11,026</u>
Income (loss) before transfers and special items	40,103	171,740	11,929	(12,718)	211,054	(7,150)
Transfers in	49,792	-	49,792	13,599	113,183	13,929
Transfers out	(13,599)	(25,000)	(25,000)	-	(63,599)	(68,179)
Gain on sale of land	-	-	-	-	-	7,505
Change in net assets	76,296	146,740	36,721	881	260,638	(53,895)
Total net assets - beginning	<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>
Total net assets - ending	<u>\$ 1,422,267</u>	<u>\$ 2,006,557</u>	<u>\$ 809,935</u>	<u>\$ 5,159</u>	<u>\$ 4,243,918</u>	<u>\$ 3,983,280</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**  
**(With Comparative Totals For June 30, 2005)**

	Water Utility	Electric Utility	Gas Utility	Other Enterprise Funds	Total 2006	Total 2005
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 227,056	\$ 981,406	\$ 1,017,902	\$ 4,216	\$ 2,230,580	\$ 1,935,750
Cash payments to suppliers for goods and services	(84,157)	(630,911)	(874,224)	-	(1,589,292)	(1,588,151)
Cash payments to employees	(31,009)	(114,120)	(111,826)	-	(256,955)	(173,189)
Net cash provided (used) by operating activities	<u>111,890</u>	<u>236,375</u>	<u>31,852</u>	<u>4,216</u>	<u>384,333</u>	<u>174,410</u>
<b>Cash flows from non-capital financing activities:</b>						
Receipts under interfund loans	-	-	29,963	-	29,963	50,415
Payments under interfund loans	(29,963)	-	-	-	(29,963)	(50,415)
Transfers to other funds	(13,599)	-	-	-	(13,599)	(13,929)
Transfers from other funds	-	-	-	13,599	13,599	13,929
Transfers from City of Remsen	49,792	-	49,792	-	99,584	-
Transfers to City of Remsen	-	(25,000)	(25,000)	-	(50,000)	(54,250)
Net cash provided (used) by non-capital financing activities	<u>6,230</u>	<u>(25,000)</u>	<u>54,755</u>	<u>13,599</u>	<u>49,584</u>	<u>(54,250)</u>
<b>Cash flows from capital and related financing activities:</b>						
Principal payments under bond obligations	(45,000)	-	-	-	(45,000)	(30,000)
Interest payments under bond obligations	(355)	-	-	(13,619)	(13,974)	(15,247)
Purchases of capital assets	(13,486)	(75,207)	(134,002)	-	(222,695)	(319,571)
Net cash provided (used) by capital and related financing activities	<u>(58,841)</u>	<u>(75,207)</u>	<u>(134,002)</u>	<u>(13,619)</u>	<u>(281,669)</u>	<u>(364,818)</u>
<b>Cash flows from investing activities:</b>						
Investment income	1,269	19,294	14,125	901	35,589	26,630
Proceeds from sale of assets	-	-	-	-	-	7,505
Investments in MBMECA	-	(2,122)	-	-	(2,122)	27,841
Net cash provided (used) by investing activities	<u>1,269</u>	<u>17,172</u>	<u>14,125</u>	<u>901</u>	<u>33,467</u>	<u>61,976</u>
Net increase (decrease) in cash	60,548	153,340	(33,270)	5,097	185,715	(182,682)
Cash - beginning	-	578,519	456,627	31,747	1,066,893	1,249,575
Cash - ending	<u>\$ 60,548</u>	<u>\$ 731,859</u>	<u>\$ 423,357</u>	<u>\$ 36,844</u>	<u>\$ 1,252,608</u>	<u>\$ 1,066,893</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 39,300	\$ 150,793	\$ (3,663)	\$ -	\$ 186,430	\$ (18,176)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	71,530	132,129	18,986	-	222,645	210,734
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	834	(22,476)	4,927	-	(16,715)	(34,301)
(Increase) decrease in inventories	860	(15,737)	(3,372)	-	(18,249)	12,750
(Increase) decrease in prepaid insurance	143	(240)	287	-	190	(1,028)
Increase (decrease) in accounts payable	(777)	(8,094)	14,687	-	5,816	2,429
Increase (decrease) in meter deposits	-	-	-	4,216	4,216	2,002
Net cash provided (used) by operating activities	<u>\$ 111,890</u>	<u>\$ 236,375</u>	<u>\$ 31,852</u>	<u>\$ 4,216</u>	<u>\$ 384,333</u>	<u>\$ 174,410</u>
<b>Supplemental schedule of noncash investing, capital, and financing transactions:</b>						
Capital assets purchased by short-term debt (accounts payable)	\$ 23,589	\$ 79,182	\$ 12,904	\$ -	\$ 115,675	\$ -

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE A - SUMMARY OF SIGNIFICANT 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 fees 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.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE A - SUMMARY OF SIGNIFICANT 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.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE A - SUMMARY OF SIGNIFICANT 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.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE B - CASH:

The Utilities' 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 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, 2006, the Municipal Utilities held no cash equivalents.

Cash is composed accordingly as of June 30, 2006:

Checking accounts	\$ 474,608
Certificates of deposit	<u>778,000</u>
Total	<u><u>\$ 1,252,608</u></u>

NOTE C - INVESTMENTS:

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 increase by \$2,122 during the current fiscal year to a June 30, 2006 balance of \$179,716.

Credit risk - The Utilities' investment in the Missouri Basin Municipal Electric Cooperative is unrated and has not established a policy related to such risk.

NOTE D - RESTRICTED ASSETS:

At June 30, 2006, \$2,502 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 \$31,685 of customer utility deposits at June 30, 2006. 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.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE E - CAPITAL ASSETS:

A summary of changes in the capital assets for the year ended June 30, 2006 is as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2006</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,718	\$ -	\$ -	\$ 88,718
Total capital assets not being depreciated	<u>88,718</u>	<u>-</u>	<u>-</u>	<u>88,718</u>
Capital assets being depreciated:				
Water utility system	2,438,053	33,970	-	2,472,023
Electric utility system	3,597,798	133,904	-	3,731,702
Gas utility system	472,036	129,820	-	601,856
Equipment	172,929	3,400	-	176,329
Automotive equipment	<u>132,367</u>	<u>37,276</u>	<u>-</u>	<u>169,643</u>
Total capital assets being depreciated	<u>6,813,183</u>	<u>338,370</u>	<u>-</u>	<u>7,151,553</u>
Less accumulated depreciation:				
Water utility system	(875,386)	(65,101)	-	(940,487)
Electric utility system	(2,640,267)	(112,539)	-	(2,752,806)
Gas utility system	(274,097)	(11,186)	-	(285,283)
Equipment	(117,108)	(24,070)	-	(141,178)
Automotive equipment	<u>(106,162)</u>	<u>(9,749)</u>	<u>-</u>	<u>(115,911)</u>
Total accumulated depreciation	<u>(4,013,020)</u>	<u>(222,645)</u>	<u>-</u>	<u>(4,235,665)</u>
Total net capital assets being depreciated	<u>2,800,163</u>	<u>115,725</u>	<u>-</u>	<u>2,915,888</u>
Total business-type activities capital assets, net	<u>\$ 2,888,881</u>	<u>\$ 115,725</u>	<u>\$ -</u>	<u>\$ 3,004,606</u>

Depreciation expense of \$222,645 was charged to the business type activities function on the statement of activities.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

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, 2006 the following changes occurred in Long-Term Debt:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Due Within One Year
Water Revenue Bonds	\$ 125,000	\$ -	\$ 25,000	\$ 100,000	\$ 25,000
Water Capital Loan Notes	195,000	-	20,000	175,000	20,000
	320,000	-	45,000	275,000	45,000
Less: Unamortized Discount	2,316	-	479	1,837	-
	<u>\$ 317,684</u>	<u>\$ -</u>	<u>\$ 44,521</u>	<u>\$ 273,163</u>	<u>\$ 45,000</u>

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

Year Ending June 30,	Water Revenue Bonds		Water Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	-	-	80,000	3,400	80,000	3,400
	<u>\$ 100,000</u>	<u>\$ 12,263</u>	<u>\$ 175,000</u>	<u>\$ 26,848</u>	<u>\$ 275,000</u>	<u>\$ 39,111</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

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 \$9,396, \$9,776 and \$8,934, 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, 2006, transfers totaling \$13,599 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. There was also a transfer from the City of Remsen for \$49,792 reimbursing the fund for expenditures on behalf of the City in connection with the development of their urban renewal tax increment districts.

Electric Utility Fund:

During the year ended June 30, 2006, transfers totaling \$25,000 were made to the primary government, the City of Remsen. This is a routine transfer to the City in lieu of taxes.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE I - TRANSFERS (CONTINUED):

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. There was also a transfer from the City of Remsen for \$49,792 reimbursing the fund for expenditures on behalf of the City in connection with the development of their urban renewal tax increment districts.

NOTE J - 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, 2006, is presented as follows:

	<u>Water Utility</u>
Condensed statement of net assets:	
Assets:	
Current assets	\$ 97,701
Capital assets	1,623,220
Total assets	1,720,921
Liabilities:	
Current liabilities	70,491
Noncurrent liabilities	228,163
Total liabilities	298,654
Net assets:	
Invested in capital assets, net of related debt	1,350,057
Unrestricted	72,210
Total net assets	\$ 1,422,267
Condensed statement of revenue, expenses, and changes in net assets:	
Operating revenues	\$ 226,222
Depreciation expense	(71,530)
Other operating expenses	(115,392)
Operating income	39,300
Non-operating revenue (expenses)	803
Transfers	36,193
Changes in net assets	76,296
Net assets - beginning	1,345,971
Net assets - ending	\$ 1,422,267

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE J - SEGMENT INFORMATION (CONTINUED):

	Water Utility
Condensed statement of cash flows:	
Net cash provided (used) by:	
Operating activities	\$ 111,890
Non-capital financing activities	6,230
Capital and related financing activities	(58,841)
Investing activities	1,269
Net increase in cash	60,548
Cash - beginning	-
Cash - ending	\$ 60,548

NOTE K - 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 L - RELATED PARTY TRANSACTIONS:

The Municipal Utilities had business transactions of \$65,398 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2006.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Municipal Utilities of the City of Remsen**  
**Comparison of Receipts, Disbursements and Changes in Balances -**  
**Actual to Budget (Cash Basis)**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2006**

	<b>Business- Type Actual</b>	<b>Budgeted Amounts</b>		<b>Final to Actual Variance</b>
		<b>Original</b>	<b>Final</b>	
<b>Receipts:</b>				
Use of money and property	\$ 35,589	\$ 22,550	\$ 22,550	\$ 13,039
Charges for services	2,230,580	1,835,900	1,835,900	394,680
	<u>2,266,169</u>	<u>1,858,450</u>	<u>1,858,450</u>	<u>407,719</u>
<b>Disbursements:</b>				
Business-type activities	2,130,038	1,808,450	1,808,450	(321,588)
Deficiency of receipts under disbursements	136,131	50,000	50,000	<u>\$ 86,131</u>
Transfers in (out)	49,584	(50,000)	(50,000)	
Excess of receipts and transfers over disbursements	185,715	-	-	
Cash balance - beginning	1,066,893	1,335,214	1,335,214	
Cash balance - ending	<u>\$ 1,252,608</u>	<u>\$ 1,335,214</u>	<u>\$ 1,335,214</u>	

**Municipal Utilities of the City of Remsen**  
**Budgetary Comparison Schedule - Budget to GAAP Reconciliation**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2006**

	<b>Business-Type Activities</b>		
	<b>Cash Basis</b>	<b>Accrual Adjustments</b>	<b>Accrual Basis</b>
Revenues	\$ 2,266,169	\$ 15,632	\$ 2,281,801
Expenses	2,130,038	(59,291)	2,070,747
Other financing sources (uses)	49,584	-	49,584
Net	185,715	74,923	260,638
Net assets - beginning	1,066,893	2,916,387	3,983,280
Net assets - ending	\$ 1,252,608	\$ 2,991,310	\$ 4,243,918

**Municipal Utilities of the City of Remsen**  
**Notes to Required Supplementary Information -**  
**Budgetary Reporting**  
**June 30, 2006**

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. The City did not amend its budget during the year ended June 30, 2006.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the business type activities function.

**OTHER SUPPLEMENTARY INFORMATION**

**Municipal Utilities of the City of Remsen**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2006**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash	\$ -	\$ 2,657	\$ 2,657
Restricted assets:			
Cash	2,502	31,685	34,187
Total assets	2,502	34,342	36,844
<b>Liabilities:</b>			
Current liabilities:			
Meter deposits	-	31,685	31,685
Total liabilities	-	31,685	31,685
<b>Net assets:</b>			
Restricted for debt service	2,502	-	2,502
Unrestricted	-	2,657	2,657
Total net assets	\$ 2,502	\$ 2,657	\$ 5,159

**Municipal Utilities of the City of Remsen**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2006**

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
<b>Non-operating revenues (expenses):</b>			
Interest and investment revenue	\$ 21	\$ 880	\$ 901
Interest expense	(13,619)	-	(13,619)
Total non-operating revenue (expenses)	(13,598)	880	(12,718)
Transfers in	13,599	-	13,599
Change in net assets	1	880	881
Total net assets - beginning	2,501	1,777	4,278
Total net assets - ending	<u>\$ 2,502</u>	<u>\$ 2,657</u>	<u>\$ 5,159</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2006**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ -	\$ 4,216	\$ 4,216
Net cash provided by operating activities	-	4,216	4,216
<b>Cash flows from non-capital financing activities:</b>			
Transfers from other funds	13,599	-	13,599
Net cash provided by financing activities	13,599	-	13,599
<b>Cash flows from capital and related financing activities:</b>			
Interest payments under bond obligations	(13,619)	-	(13,619)
Net cash used for capital and related financing activities	(13,619)	-	(13,619)
<b>Cash flows from investing activities:</b>			
Investment income	21	880	901
Net cash provided by financing activities	21	880	901
Net increase in cash	1	5,096	5,097
Cash - beginning	2,501	29,246	31,747
Cash - ending	\$ 2,502	\$ 34,342	\$ 36,844
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in meter deposits	-	4,216	4,216
Net cash provided by operating activities	\$ -	\$ 4,216	\$ 4,216

**Municipal Utilities of the City of Remsen  
Bond and Note Maturities  
June 30, 2006**

<b>Year Ending June 30,</b>	<b>Revenue Notes</b>				
	<b>Water Revenue Bonds March 1, 1999</b>		<b>Water Capital Loan Notes December 15, 2001</b>		<b>Total</b>
	<b>Interest Rate</b>	<b>Amount</b>	<b>Interest Rates</b>	<b>Amount</b>	
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>\$ 100,000</u>		<u>\$ 175,000</u>	<u>\$ 275,000</u>

**Municipal Utilities of the City of Remsen**  
**Schedule of Electric Rates**  
**June 30,**

2006

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2005

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RESIDENTIAL SERVICE

First 50 KWH -	\$0.085 per KWH	First 50 KWH -	\$0.070 per KWH
Next 150 KWH -	\$0.070 per KWH	Next 150 KWH -	\$0.055 per KWH
Over 200 KWH -	\$0.060 per KWH	Over 200 KWH -	\$0.045 per KWH
Minimum charge -	\$4.25 per month	Minimum charge -	\$4.25 per month

COMMERCIAL SERVICE AND POWER

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

ELECTRIC CUSTOMERS

Residential Customers - 700  
Commercial Customers - 213

**Municipal Utilities of the City of Remsen**  
**Schedule of Water Rates**  
**June 30,**

2006

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2005

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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 - 661  
Commercial Customers - 125

**Municipal Utilities of the City of Remsen**  
**Schedule of Gas Rates**  
**June 30,**

2006

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2005

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RESIDENTIAL AND COMMERCIAL

All CF                    \$10.3519 per MCF  
Minimum charge - \$10.3519 per month

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

GAS CUSTOMERS

Residential Customers - 637  
Commercial Customers - 114



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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  
Municipal Utilities of the City of Remsen  
Remsen, Iowa

We have audited the 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, 2006, which collectively comprise the Municipal Utilities of the City of Remsen's basic financial statements and have issued our report thereon dated October 6, 2006. 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 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 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 and responses.

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, we believe item I-A-06 is a material weakness.

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

### 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 and responses.

Comments involving statutory and other legal matters about the Municipal Utilities' 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 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 October 6, 2006.

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.*

Sioux City, Iowa  
October 6, 2006

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended 30, 2006**

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-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. 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-06     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.

**Municipal Utilities of the City of Remsen**  
**Schedule of Findings and Responses**  
**For the Year Ended 30, 2006**  
**(Continued)**

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

I-C-06     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-06     Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the business-type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-06     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-C-06     Travel Expense - No disbursements of Municipal Utilities money for travel expenses of spouses of Board of Trustees or employees were noted.

II-D-06     Business Transactions - The Municipal Utilities had business transactions of \$65,398 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2006.

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.

**Municipal Utilities of the City of Remsen**  
**Schedule of Findings and Responses**  
**For the Year Ended 30, 2006**  
**(Continued)**

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

II-E-06 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-F-06 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, it was noted that the minutes of meetings were not all properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should sign and publish minutes as required.

Response - We will sign and publish minutes as required.

Conclusion - Response accepted.

II-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 City's investment policy.

II-H-06 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-I-06 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.