

**LA PORTE CITY UTILITIES**

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

**JUNE 30, 2007**

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**La Porte City Utilities**

**Board of Trustees**

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

**La Porte City Utilities**

**Independent Auditor's Report**

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2007, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the La Porte City Utilities's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2007 on our consideration of the La Porte City Utilities's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the La Porte City Utilities's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 5, 2007

# LA PORTE CITY UTILITIES

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## MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. It is to be used in conjunction with the Utilities Annual Report, which follow.

### BASIS OF ACCOUNTING

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (*such as accounts receivable and revenue for billed or provided services not yet collected*). As well as certain liabilities and their related expenses (*such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities*) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

### HOW TO USE THE ANNUAL REPORT

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

#### **Basic Financial Statements**

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

#### **Notes to the Financial Statements**

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

### **Required Supplementary Information**

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

### **Other Supplementary Information**

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

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

### **BASIC FINANCIAL STATEMENTS**

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

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

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

Adding the *Total Business Type Net Change in Cash* with the *Total General Receipts* equals the *Change in Cash Basis Net Assets* or the total increase/(decrease) in net assets for the Utilities for the year. For the fiscal year ending June 30, 2007, the increase in net assets was \$136,705. Add that to the *Beginning Net Assets* balance of \$874,550, gives us a new *Ending Net Assets* balance of \$1,011,255.

The final section of this report shows that the *Ending Net Assets* consist of \$315,574 in restricted funds, and \$695,681 in un-restricted funds. Of the restricted funds, some are required to be established by Bond Covenants, others by State Law, or some are established by the Board to help it control and manage money for particular purposes.

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

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The three major funds the Utilities maintain are for the Electric and Water departments as well as the Debt Service Reserve Fund. All other funds are lumped together as Non-Major funds for the

purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, *Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds* (Schedule 1).

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

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

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

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

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

## FINANCIAL HIGHLIGHTS

- The total revenues for all departments were \$1,771,090. This is an increase of \$136,442 or approximately 8.35 percent from the previous year’s revenues of \$1,634,648. This is due to several factors:
  - Water rates were increased at the beginning of the 2007 fiscal year. This resulted in an approximate 20% increase in water revenues.
  - Use of Money and Property in the 2007 fiscal year was \$47,018; this is an increase of \$23,782 or a staggering 102.35 percent increase from the previous year’s earnings of \$23,236. Budgeted transfers into the Capital Improvement Fund, transfers to prepare for large capital improvement projects, plus a steady increase in interest rates resulted in this enormous increase.
  - The ice storm in February 2007 caused severe damage to thousands of miles of overhead electric lines, sub-stations, and generating plants. This included the main line that brings **all** of La Porte City our electricity. La Porte City Utilities ran our generators non-stop for six days in order to provide our entire service area with electricity until repairs were made to the incoming line. Black Hawk County was included with several counties in Iowa that was declared a “National Disaster Area” by the President of the United States. This qualified us to receive state and federal monies to recoup a portion of our expenses incurred to repair services and the costs associated with generating for so many days. A portion of that reimbursement was received in the 2007 fiscal year. We qualified for \$85,749.05 in public assistance funds. Of this amount, \$9,690.34 was received in the 2007 fiscal year. The remainder will likely be received in the 2008 fiscal year.
- The total disbursements for all departments were \$1,634,385. This is up \$109,188 or approximately 7.16 percent from the previous year’s total expenses of \$1,525,197. Several items influenced this increase.
  - We spent an additional \$61,432 in fuel to run the generators. This was mostly due to the ice storm in February where we ran the generators for 115 hours in order to provide electricity while the incoming line was out of service.
  - Capital Improvements are an important part of providing reliable and quality services. Capital Improvement costs increased \$79,564 or 85.7 percent from

\$92,845 in 2006 to \$172,409 in 2007. As part of our on-going capital improvement plan three (3) projects were in various stages of completion in the 2007 fiscal year.

- **Sweet Addition:** A new sub-division south of Schull Avenue and east of Hwy 218. La Porte City Utilities was required to provide water and electric services for an additional 29 lots. We had to extend the water main on Commercial Street an additional 1,170 feet to reach the north-west corner of the new sub-division. This cost us a total of \$63,232 in engineering, hydrant assemblies, and water mains. A small portion of the materials needed for the electric services were received and paid for in the 2007 year costing \$26,590.
- **Bishop Terrace:** The water line branching off of Locust Street down Bishop Terrace was originally installed as a 1 ½" service line by the homeowner when they built the first home on this street. While the City of La Porte City had completely removed the old street down to the existing sewer main and water service line, we took advantage of this construction and chose to replace the 1 ½" service line with a new 6" water main. This project cost us \$21,304.
- **Feeder #6:** An additional over-head distribution line necessary to eliminate system deficiencies. This new line will initiate at the sub-station and terminate at the bin site of East Central Iowa Co-Op. The bid for this large and complex project was awarded to JP Rowe Construction, Inc. with La Porte City Utilities providing all materials and JP Rowe Construction, Inc providing the labor. Materials purchased during the 2007 fiscal year totaled \$27,045.
- Revenues exceeded expenses by \$136,705. This is compared to a net increase the previous year of \$109,451. The ending fund balance on June 30, 2007 was \$1,011,255.

	Year Ended June 30,		\$ Difference	% Change
	2007	2006		
<b>Program Receipts:</b>				
Charges for Service:				
Electric	\$1,401,369	\$1,335,950	\$65,419	4.90%
Water	\$236,948	\$195,178	\$41,770	21.40%
Restricted Interest	\$12,893	\$7,088	\$5,805	81.90%
General Receipts:				
Un-restricted Interest	\$34,125	\$16,148	\$17,977	111.33%
Miscellaneous	\$85,755	\$80,284	\$5,471	6.81%
<b>Total Receipts</b>	<b>\$1,771,090</b>	<b>\$1,634,648</b>	<b>\$136,442</b>	<b>8.35%</b>
<b>Disbursements:</b>				
Operating Disbursements:				
Electric	\$1,154,714	\$1,127,541	\$27,173	2.41%
Water	152,666	150,491	2,175	1.45%
Capital Projects	172,410	92,845	79,565	85.70%
Debt Service	154,595	154,320	275	0.18%
<b>Total Disbursements</b>	<b>\$1,634,385</b>	<b>\$1,525,197</b>	<b>\$109,188</b>	<b>7.16%</b>

Increase (Decrease) in Cash Balance	\$136,705	\$109,451	\$27,254	24.90%
Cash Basis Net Assets Beginning of Year	874,550	765,099		
Cash Basis Net Assets End of Year	\$1,011,255	\$874,550		

## 2007 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in April 2007. The amendment allowed for the following changes:

### Electric department

#### Revenue:

- Increased Charges for Services due to higher than anticipated kilowatt hours sold.
- Increased Use of Money and Property due to rising interest rates and increased transfers to investments.

#### Expenses:

- Additional generation required due to ice storm knocking out incoming line in February 2007.
- Increased purchased power costs due to additional kilowatts hours purchased on the open market.
- Increased capital project line items in anticipation of completing major projects.

### Water department

#### Revenue:

- Increased charges for services as rates were increased in June 2006.

#### Expenses:

- Increased capital project line items in anticipation of completing major projects.

## DEBT ADMINISTRATION

As of June 30, 2007 the Utilities had an obligation of \$965,000 in Revenue Bonds outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000. 2007 was the sixth year of payments in a 15-year payment schedule.

## NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members considered many factors when setting the fiscal year 2008 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 125% of that year's scheduled Bond Payment. The bond payment due in 2008 is \$154,560 that means we have to have Net Operating Revenues in the Electric Department of at least \$193,200. The budgeted Net Operating Revenues were sufficient to cover the Bond Covenant requirement. Electric rates were not expected to be increased during the 2008 fiscal year.

- Funds were budgeted for construction of a new storage building to meet the growing storage needs of La Porte City Utilities.
- The remaining funds were budgeted fairly consistent compared to those of the 2007 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2008 budget.

### 2008 BUDGET SUMMARY

	ELECTRIC	METER DEPOSIT	WATER	CAPITAL IMPRV RSV	DEBT SERVICE	DIESEL ENG IMPROVE MENT	DIESEL ENG RESERVE	TOTAL
<b>REVENUE</b>								
USE OF MONEY & PROP	10,760	480	4,030	4,236		0	7,428	26,934
CHARGES FOR SVCS	1,346,075		228,429					1,574,504
MISCELLANEOUS	52,813		16,297					69,110
OTHER FINANCING	10,750	0	0	73,700	154,560	0	0	239,010
<b>TOTAL REVENUE</b>	<b>1,420,398</b>	<b>480</b>	<b>248,756</b>	<b>77,936</b>	<b>154,560</b>	<b>0</b>	<b>7,428</b>	<b>1,909,558</b>

<b>EXPENDITURES</b>								
HOME & COMMUNITY	1,244,787		209,137		154,560			1,608,484
<b>TOTAL EXPENDITURES</b>	<b>1,244,787</b>	<b>0</b>	<b>209,137</b>	<b>0</b>	<b>154,560</b>	<b>0</b>	<b>0</b>	<b>1,608,484</b>
LESS:								
DEBT SERVICE					154,560			154,560
CAPITAL PROJECTS	74,680		58,320					133,000
NET OPERATING EXP	1,170,107	0	150,817	0	0	0	0	1,320,924
TRANSFERS OUT	178,860	0	49,400	0		0	10,750	239,010
<b>TOTAL EXP/TRANSFERS</b>	<b>1,423,647</b>	<b>0</b>	<b>258,537</b>	<b>0</b>	<b>154,560</b>	<b>0</b>	<b>10,750</b>	<b>1,847,494</b>

<b>PROFIT/LOSS</b>	(3,249)	480	(9,781)	77,936	0	0	(3,322)	62,064
BEGINNING BALANCE	506,866	9,299	61,741	131,740	0	10,000	156,017	875,663
<b>ENDING BALANCE</b>	<b>503,617</b>	<b>9,779</b>	<b>51,960</b>	<b>209,676</b>	<b>0</b>	<b>10,000</b>	<b>152,695</b>	<b>937,727</b>

### CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

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

**Basic Financial Statements**

## La Porte City Utilities

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Business Type Activities Total
<b>Functions / Programs:</b>				
Business type activities:				
Electric	\$ 1,242,208	1,401,369	-	159,161
Water	237,582	236,948	-	(634)
Debt Service	154,595	-	-	(154,595)
Non-major funds	-	-	12,893	12,893
Total business type activities	<u>1,634,385</u>	<u>1,638,317</u>	<u>12,893</u>	<u>16,825</u>
<b>General Receipts:</b>				
Unrestricted interest on investments				34,125
Miscellaneous				85,755
Transfers				-
Total general receipts and transfers				<u>119,880</u>
Change in cash basis net assets				136,705
Cash basis net assets beginning of year				<u>874,550</u>
Cash basis net assets end of year				<u>\$ 1,011,255</u>
<b>Cash Basis Net Assets</b>				
Restricted:				
Other purposes				315,574
Unrestricted				<u>695,681</u>
<b>Total cash basis net assets</b>				<u>\$ 1,011,255</u>

See notes to financial statements

La Porte City Utilities

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

As of and for the year ended June 30, 2007

	Enterprise Funds				Total
	Electric	Water	Debt Service Reserve	Other Nonmajor Proprietary Funds	
<b>Operating receipts:</b>					
Use of money and property	\$ 31,341	2,784	-	12,893	47,018
Charges for service	1,401,369	236,948	-	-	1,638,317
Miscellaneous	70,280	15,475	-	-	85,755
<b>Total operating receipts</b>	<b>1,502,990</b>	<b>255,207</b>	<b>-</b>	<b>12,893</b>	<b>1,771,090</b>
<b>Operating disbursements:</b>					
Business type activities	1,242,208	237,582	-	-	1,479,790
<b>Total operating disbursements</b>	<b>1,242,208</b>	<b>237,582</b>	<b>-</b>	<b>-</b>	<b>1,479,790</b>
Excess (deficiency) of operating receipts over (under) operating disbursements	260,782	17,625	-	12,893	291,300
<b>Non-operating receipts (disbursements):</b>					
Debt service	-	-	(154,595)	-	(154,595)
<b>Total non-operating receipts (disbursements)</b>	<b>-</b>	<b>-</b>	<b>(154,595)</b>	<b>-</b>	<b>(154,595)</b>
Excess (deficiency) of receipts over (under) disbursements	260,782	17,625	(154,595)	12,893	136,705
Operating transfers in/(out)	(183,195)	(6,400)	154,595	35,000	-
Net change in cash balances	77,587	11,225	-	47,893	136,705
Cash balances beginning of year	548,897	57,972	-	267,681	874,550
Cash balances end of year	\$ 626,484	69,197	-	315,574	1,011,255
<b>Cash Basis Fund Balances</b>					
Unreserved	626,484	69,197	-	-	695,681
Reserved	-	-	-	315,574	315,574
<b>Total cash basis fund balances</b>	<b>\$ 626,484</b>	<b>69,197</b>	<b>-</b>	<b>315,574</b>	<b>1,011,255</b>

See notes to financial statements

La Porte City Utilities

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

As of and for the year ended June 30, 2007

<b>Total enterprise funds cash balances (page 15)</b>	\$1,011,255
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The utility does not have an internal service fund.  
Therefore there are no reconciling items.

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<b>Cash basis net assets of business type activities (page 14)</b>	<u>\$1,011,255</u>
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<b>Net change in cash balances (page 15)</b>	\$ 136,705
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The utility does not have an internal service fund.  
Therefore there are no reconciling items.

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<b>Change in cash balance of business type activities (page 14)</b>	<u>\$ 136,705</u>
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See notes to financial statements

La Porte City Utilities

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

The Utility reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, no disbursements exceeded the amounts budgeted.

**(2) Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Utility's investments at June 30, 2007 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	<u>\$ 292,275</u>	<u>292,275</u>	<u>Various Dates</u>

The Utility held investments in credit unions which are valued at \$245,182 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$625,161 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

**(3) Revenue Bonds Payable**

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

Year Ending June 30,	Utility Revenue Bond	
	Principal	Interest
2008	100,000	54,160
2009	105,000	48,810
2010	110,000	43,140
2011	115,000	37,090
2012 - 2015	535,000	79,390
Total	\$ 965,000	262,590

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

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

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$13,534, \$11,759, and \$10,709, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the Electric and Water Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,598
Sick leave	<u>3,524</u>
Total	<u>\$ 11,122</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Electric Sinking Fund	\$ 154,595
Capital Improvement Reserve	Electric	28,600
Capital Improvement Reserve	Water	6,400

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

**(7) Risk Management**

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

**(8) Subsequent Events**

The Utility purchased a storage building in December 2007 from Greg Pipho, who did not renew his term when it expired September 2007. The building was purchased for \$33,500, which was its appraised value.

**Required Supplementary Information**

La Porte City Utilities

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

Required Supplementary Information

Year ended June 30, 2007

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 47,018	29,390	44,305	2,713
Charges for service	1,638,317	1,522,893	1,658,338	(20,021)
Miscellaneous	85,755	67,466	71,161	14,594
Total receipts	<u>1,771,090</u>	<u>1,619,749</u>	<u>1,773,804</u>	<u>(2,714)</u>
Disbursements:				
Business type activities	1,634,385	1,618,635	2,214,258	579,873
Total disbursements	<u>1,634,385</u>	<u>1,618,635</u>	<u>2,214,258</u>	<u>579,873</u>
Excess (deficiency) of receipts over disbursements	136,705	1,114	(440,454)	(582,587)
Other financing sources (uses), net	-	-	-	-
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	136,705	1,114	(440,454)	(582,587)
Balances beginning of year	874,550	805,789	874,550	874,550
Balances end of year	<u>\$ 1,011,255</u>	<u>806,903</u>	<u>434,096</u>	<u>291,963</u>

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$595,623. The budget amendment is reflected in the final budgeted amounts.

**Other Supplementary Information**

## La Porte City Utilities

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

As of and for the year ended June 30, 2007

	Proprietary Funds				Total
	Meter Deposits	Capital Improvement Reserve	Diesel Engine Reserve	Diesel Engine Improvement	
Receipts:					
Use of money and property	\$ 439	5,062	7,392	-	12,893
Total receipts	439	5,062	7,392	-	12,893
Disbursements:					
Business type activities	-	-	-	-	-
Total disbursements	-	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	439	5,062	7,392	-	12,893
Other financing sources:					
Operating transfers in/(out)	-	35,000	-	-	35,000
Net change in cash balances	439	40,062	7,392	-	47,893
Cash balances beginning of year	8,929	99,440	149,312	10,000	267,681
Cash balances end of year	\$ 9,368	139,502	156,704	10,000	315,574
<b>Cash Basis Fund Balances</b>					
Reserved for debt service:	-	-	-	-	-
Reserved:					
Capital projects fund	-	139,502	156,704	10,000	306,206
Permanent fund	9,368	-	-	-	9,368
Total cash basis fund balances	\$ 9,368	139,502	156,704	10,000	315,574

See accompanying independent auditor's report

La Porte City Utilities  
Schedule of Indebtedness  
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
Utility Revenue Bonds - Electric fund	Mar 1, 2000	5.0 - 5.8%	\$ 1,465,000	<u>\$ 1,060,000</u>

See accompanying independent auditor's report

**Schedule 2**

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-	95,000	965,000	59,195	-

La Porte City Utilities

Bond and Note Maturities

June 30, 2007

Year Ending June 30,	Utility Revenue Bonds	
	Electric	
	Issued Mar 1, 2000	
	Interest Rates	Amount
2008	5.35%	\$ 100,000
2009	5.40%	105,000
2010	5.50%	110,000
2011	5.60%	115,000
2012	5.65%	120,000
2013	5.70%	130,000
2014	5.75%	140,000
2015	5.80%	145,000
		<u>\$ 965,000</u>

See accompanying independent auditor's report

## La Porte City Utilities

Schedule of Receipts by Source and Disbursements By Function  
All Proprietary Funds

For the Last Six Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Receipts:</b>						
Use of money and property	\$ 47,018	23,236	15,113	12,281	17,041	31,363
Charges for service	1,638,317	1,531,128	1,383,209	1,255,468	1,170,925	1,031,824
Miscellaneous	85,755	80,284	75,614	88,088	7,579	124,217
<b>Total</b>	<b>\$ 1,771,090</b>	<b>1,634,648</b>	<b>1,473,936</b>	<b>1,355,837</b>	<b>1,195,545</b>	<b>1,187,404</b>
<b>Disbursements:</b>						
Business-type	\$ 1,479,790	1,370,877	1,219,895	1,104,848	1,252,566	1,028,562
Debt service	154,595	154,320	153,740	152,760	151,285	155,035
<b>Total</b>	<b>\$ 1,634,385</b>	<b>1,525,197</b>	<b>1,373,635</b>	<b>1,257,608</b>	<b>1,403,851</b>	<b>1,183,597</b>

See accompanying independent auditor's report

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2007, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated December 5, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Porte City Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects La Porte City Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of La Porte City Utilities' financial statements that is more than inconsequential will not be prevented or detected by La Porte City Utilities' internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by La Porte City Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item II-A-07 is a material weakness.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2007 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.

La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit La Porte City Utilities' responses and, accordingly, we express no opinion on them.

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

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

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

December 5, 2007

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

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

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

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

Response - We will consider this.

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

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted in the business type activities functions.
- III-B-07 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-07 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-07 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.
- III-E-07 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-07 Board of Trustee Minutes – There was one transfer for \$29,797.50 from the Electric Sinking Fund to the Debt Service Fund that was not approved during the year.

Recommendation – The Board should approve all transfers.

Response – We will try to approve all transfers in the future.

Conclusion – Response accepted.

- III-G-07 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

La Porte City Utilities

Staff

This audit was performed by:

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