# EMMETSBURG MUNICIPAL UTILITIES

## EMMETSBURG, IOWA

## COMPONENT UNIT FINANCIAL STATEMENTS

## JUNE 30, 2007

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EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

| Name | Title | Term Expires |
|---|---|---|
| Ronald Ludwig | Board Member | Dec. 31, 2007 |
| Paul Saxton | Board Member | Dec. 31, 2009 |
| Dan Cooper | Board Member | Dec. 31, 2010 |
| John Wright | Board Member | Dec. 31, 2011 |
| Nick Steinkamp | Board Member | Dec. 31, 2012 |
| John Bird | City Administrator/Superintendent | |
| Kathy Gunderson | Administrative Assistant | |
| John D. Brown | Attorney | |

**Burdorf, Parrott And Associates, P.C.**
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2007, and the related combining statement of revenue, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. The effect on the financial statements of the preceding practice is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2007 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2008, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

MEMBER
IOWA
SOCIETY
Certified Public Accountants
Members American Institute of Certified Public Accountants

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and page 19, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 20 is presented for the purpose 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 the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burdorf, Parrott And Associates, P.C.*

January 17, 2008

## Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2007. Please read it in conjunction with the Utilities' financial statements, which follow.

### Financial Highlights

- The Utilities' net assets increased $ 278,455 as a result of this year's operations. This represents a 2.5 % increase.
- The Utilities' return on total ending assets was nearly 1.8 %.
- The Utilities' total revenues were $3,988,109 in 2007 compared to $4,932,297 in 2006.
- During the year ended June 30, 2007, the Utilities had total expenses, excluding depreciation, of $3,213,419 compared to $3,599,072 for June 30, 2006.

### Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on pages 10 and 11) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

### Reporting the Funds Maintained by the Utilities as a Whole

The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

## Reporting the Most Significant Funds Maintained by the Utilities

### Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

### The Funds maintained by the Utilities as a Whole

For the years ended June 30, 2007 and 2006, net assets changed as follows:

Summary of Operations and Changes in Net Assets

| | 2007 | 2006 |
|---|---|---|
| Net operating revenues | $ 3,868,928 | 4,029,116 |
| Net operating expenses | 3,493,198 | 3,516,651 |
| Net operating income | 375,730 | 512,465 |
| Non-operating revenue (expenses) | (6,471) | 820,760 |
| Transfers to primary government | (90,804) | (95,658) |
| Net increase in net assets | $ 278,455 | 1,237,567 |

Net Assets

| | 2007 | 2006 |
|---|---|---|
| Assets: | | |
| Current and other assets | $ 4,757,349 | 4,525,946 |
| Capital assets | 10,506,518 | 10,539,432 |
| Total assets | $ 15,263,867 | 15,065,378 |
| Liabilities: | | |
| Current liabilities | $ 483,277 | 519,577 |
| Non-current liabilities | 3,448,000 | 3,491,666 |
| Total liabilities | 3,931,277 | 4,011,243 |
| Net assets: | | |
| Invested in capital assets (net of debt) | 6,901,518 | 6,943,701 |
| Unreserved | 4,431,072 | 4,110,434 |
| Total liabilities and net assets | $ 15,263,867 | 15,065,378 |

Revenues

| | 2007 | 2006 |
|---|---|---|
| Operating: | | |
| Residential | $ 1,622,389 | 1,806,399 |
| Commercial | 1,386,404 | 1,378,400 |
| Public authority | 270,091 | 298,801 |
| Customer fees | 490,728 | 440,544 |
| Interfund services provided | 46,268 | 53,391 |
| Penalties | 8,041 | 5,412 |
| Other | 45,007 | 46,169 |
| Total operating | 3,868,928 | 4,029,116 |
| Non-operating revenues: | | |
| Interest income | 82,300 | 62,633 |
| Grant proceeds | 36,881 | 840,548 |
| Total non-operating revenues | 119,181 | 903,181 |
| Total revenues | $ 3,988,109 | 4,932,297 |

For the funds maintained by the Utilities, total revenues for June 30, 2007 decreased by $944,188 from total revenues for the year ended June 30, 2006.

The decrease in revenue was primarily due to decrease in natural gas billings and grant proceeds. The average cost paid for natural gas by the Utilities for the year ended June 30, 2007 was $8.21 per MCF compared to $9.80 per MCF for the year ended June 30, 2006. The decrease in cost was past on to the customer. In addition to the decreased billings of natural gas, the Utilities received grant proceeds of $36,881 for the year ended June 30, 2007 as compared to $840,548 received for the year ended June 30, 2006.

Expenses

| | 2007 | 2006 |
|---|---|---|
| Operating: | | |
| Personal services | $ 360,454 | 368,573 |
| Contractual | 270,274 | 223,818 |
| Materials, supplies and maintenance | 2,317,302 | 2,480,331 |
| Utilities | 63,595 | 58,247 |
| Depreciation | 405,431 | 284,464 |
| Uncollected accounts | 12,716 | 5,112 |
| Interfund services used | 62,426 | 63,542 |
| Other | 1,000 | 32,564 |
| Total operating | 3,493,198 | 3,516,651 |
| Non-operating expenses: | | |
| Interest expense | 125,652 | 82,421 |
| Total expense | $ 3,618,850 | 3,599,072 |

The total expenses increased by $19,778 from the prior year. This resulted primarily from lower cost of natural gas purchased, as discussed above in revenues, which reduced expense by $158,733, an increase in depreciation expense of $120,967, an increase of $43,231 in interest expense and an increase of $41,308 in professional fees. The difference of $26,995 in reduced expenses was spread throughout the Utilities' expenses.

**Capital Asset and Debt Administration**

Capital Assets

| | Balance July 1, 2006 | Additions | Disposals | Balance June 30, 2007 |
|---|---|---|---|---|
| Gas Department: | | | | |
| Land | $ 1,039 | - | - | 1,039 |
| Structures & plant | 333,319 | - | - | 333,319 |
| Distribution system | 1,154,092 | - | - | 1,154,092 |
| Equipment, meters & mains | 794,619 | 12,723 | - | 807,342 |
| Total asset costs | 2,283,069 | 12,723 | - | 2,295,792 |
| Less accumulated depreciation | (1,434,722) | (56,060) | - | (1,490,782) |
| Gas Department assets, net | $ 848,347 | (43,337 ) | - | 805,010 |
| | | | | |
| Water Department: | | | | |
| Land | $ 67,067 | - | - | 67,067 |
| Structures & plant | 517,471 | 3,424,969 | - | 3,942,440 |
| Distribution system | 1,889,404 | 19,484 | - | 1,908,888 |
| Equipment, meters & mains | 987,019 | 8,580 | - | 995,599 |
| Construction in progress | 3,205,371 | - | (3,205,371) | - |
| Total asset costs | 6,666,332 | 3,453,033 | (3,205,371) | 6,913,994 |
| Less accumulated depreciation | (1,610,685) | (184,273) | - | (1,794,958) |
| Water Department assets, net | $ 5,055,647 | 3,268,760 | (3,205,371) | 5,119,036 |
| | | | | |
| Sanitation Department: | | | | |
| Land | $ 84,542 | - | - | 84,542 |
| Structures & plant | 4,348,889 | - | - | 4,348,889 |
| Distribution system | 1,411,983 | 18,389 | - | 1,430,372 |
| Equipment, meters & mains | 542,432 | 1,101,227 | - | 1,643,659 |
| Construction in progress | 1,007,484 | - | (1,007,484) | - |
| Total asset costs | 7,395,330 | 1,119,616 | (1,007,484) | 7,507,462 |
| Less accumulated depreciation | (2,759,892) | (165,098) | - | (2,924,990) |
| Sanitation Department assets, net | $ 4,635,438 | 954,518 | (1,007,484) | 4,582,472 |

Continued on the next page

| | Balance July 1, 2005 | Additions | Disposals | Balance June 30, 2006 |
|---|---|---|---|---|
| Gas Department: | | | | |
| Land | $ 1,039 | - | - | 1,039 |
| Structures & plant | 333,319 | - | - | 333,319 |
| Distribution system | 1,100,919 | 53,173 | - | 1,154,092 |
| Equipment, meters & mains | 767,315 | 27,304 | - | 794,619 |
| Total asset costs | 2,202,592 | 80,477 | - | 2,283,069 |
| Less accumulated depreciation | (1,379,690) | (55,032) | - | (1,434,722) |
| Gas Department assets, net | $ 822,902 | 25,445 | - | 848,347 |
| | | | | |
| Water Department: | | | | |
| Land | $ 67,067 | - | - | 67,067 |
| Structures & plant | 517,471 | - | - | 517,471 |
| Distribution system | 1,889,404 | - | - | 1,889,404 |
| Equipment, meters & mains | 969,061 | 17,958 | - | 987,019 |
| Construction in progress | 192,977 | 3,012,394 | - | 3,205,371 |
| Total asset costs | 3,635,980 | 3,030,352 | - | 6,666,332 |
| Less accumulated depreciation | (1,532,528) | (78,157) | - | (1,610,685) |
| Water Department assets, net | $ 2,103,452 | 2,952,195 | - | 5,055,647 |
| | | | | |
| Sanitation Department: | | | | |
| Land | $ 84,542 | - | - | 84,542 |
| Structures & plant | 4,321,950 | 26,939 | - | 4,348,889 |
| Distribution system | 1,399,559 | 12,424 | - | 1,411,983 |
| Equipment, meters & mains | 535,653, | 6,779 | - | 542,432 |
| Construction in progress | 726,792 | 280,692 | - | 1,007,484 |
| Total asset costs | 7,068,496 | 326,834 | - | 7,395,330 |
| Less accumulated depreciation | (2,608,617) | (151,275) | - | (2,759,892) |
| Sanitation Department assets, net | $ 4,459,879 | 175,559 | - | 4,635,438 |

Depreciation expense for each department is found on page 11.

**Debt**

Debt increased during the year ended June 30, 2007 due to one new loan for $50,000 to pay for engineering, planning and design for the wastewater treatment plant, $114,269 final advance on the $2,750,000 Iowa State Revolving Loan Program - Water, and $2,000 final advance on the $600,000 Iowa State Revolving Loan Program - Sewer . The water department's net debt increased by $7,269 and the sanitation department's net debt decreased by $3,000 during the year ended June 30, 2007.

**Economic Factors and Next Year's Budget and Rates**

Several economic factors affected decisions made by the Utilities in setting its fiscal 2007 budget. Due to the Utilities' large concentration of residential customers, normally weather impacts revenue to a greater degree than do economic cycles. However, lately there have been large fluctuations in the natural gas market, which makes it difficult to budget gas costs and gas revenues. The Utilities' fiscal 2008 budget has increased over fiscal 2007, due to the uncertainty of the natural gas market.

**Contacting the Utilities Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities finances and to show the Utilities accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

*John Bird*
City Administrator/Superintendent

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Net Assets
Business-Type Activities
June 30, 2007

| | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 1,589,136 | 789,370 | 484,538 | 2,863,044 |
| Certificates of deposit | 599,750 | 460,000 | 100,000 | 1,159,750 |
| Accounts receivable | 244,496 | - | 44,767 | 289,263 |
| Current portion of notes receivable | 43,607 | - | - | 43,607 |
| Other receivables | 492 | - | - | 492 |
| Accrued billing | 63,013 | 38,455 | 28,023 | 129,491 |
| Accrued interest receivable | 811 | 1,839 | 798 | 3,448 |
| Interfund receivable | 51,525 | - | 43,536 | 95,061 |
| Current portion of primary government - Urban Renewal Tax Increment Revenue Bond | 791 | 922 | 922 | 2,635 |
| Due from primarily government | - | - | - | - |
| Prepaid expenses | 5,452 | 15,953 | 12,283 | 33,688 |
| Total current assets | 2,599,073 | 1,306,539 | 714,867 | 4,620,479 |
| Noncurrent assets: | | | | |
| Restricted assets - cash and cash equivalents | 50,065 | 11,270 | - | 61,335 |
| Due from primary government - Urban Renewal Tax Increment Revenue Bond | 11,209 | 13,078 | 13,078 | 37,365 |
| Loan fees (net of $2,330 amortization) | - | 30,875 | 7,295 | 38,170 |
| Total noncurrent assets | 61,274 | 55,223 | 20,373 | 136,870 |
| Capital assets: | | | | |
| Land | 1,039 | 67,067 | 84,542 | 152,648 |
| Structures and plant | 333,319 | 3,942,440 | 4,348,889 | 8,624,648 |
| Distribution system | 1,154,092 | 1,908,888 | 1,430,372 | 4,493,352 |
| Equipment, meters and mains | 807,342 | 995,599 | 1,643,659 | 3,446,600 |
| | 2,295,792 | 6,913,994 | 7,507,462 | 16,717,248 |
| Less: Accumulated depreciation | (1,490,782) | (1,794,958) | (2,924,990) | (6,210,730) |
| Net capital assets | 805,010 | 5,119,036 | 4,582,472 | 10,506,518 |
| Total assets | $ 3,465,357 | 6,480,798 | 5,317,712 | 15,263,867 |

| Liabilities and Net Assets | | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|---|
| Current liabilities: | | | | | |
| Accounts payable | $ | 56,779 | 15,620 | 11,674 | 84,073 |
| Other liabilities payable | | 12,285 | - | - | 12,285 |
| Current portion of long-term debt | | - | 102,000 | 55,000 | 157,000 |
| Accrued vacation pay | | 3,501 | 4,417 | 1,642 | 9,560 |
| Accrued interest payable | | - | 6,369 | 2,597 | 8,966 |
| Interfund payable | | - | 89,755 | 5,306 | 95,061 |
| Customer deposits | | 50,065 | 11,270 | - | 61,335 |
| Due to Primary Government | | 38,173 | 8,364 | 8,460 | 54,997 |
| Total current liabilities | | 160,803 | 237,795 | 84,679 | 483,277 |
| Long-term debt (net of current portion above) | | - | 2,546,000 | 902,000 | 3,448,000 |
| Total liabilities | | 160,803 | 2,783,795 | 986,679 | 3,931,277 |
| Net Assets: | | | | | |
| Investment in capital assets (net of related debt) | | 805,010 | 2,471,036 | 3,625,472 | 6,901,518 |
| Unrestricted | | 2,499,544 | 1,225,967 | 705,561 | 4,431,072 |
| Total net assets | | 3,304,554 | 3,697,003 | 4,331,033 | 11,332,590 |
| Total liabilities and net assets | $ | 3,465,357 | 6,480,798 | 5,317,712 | 15,263,867 |

See notes to the financial statements.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Business-Type Activities
Year Ended June 30, 2007

| | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|
| Operating revenues: | $ | | | |
| Residential sales | 1,205,084 | 215,791 | 201,514 | 1,622,389 |
| Commercial sales | 1,060,733 | 199,520 | 126,151 | 1,386,404 |
| Public authority sales | 232,814 | 22,935 | 14,342 | 270,091 |
| Customer fees | 138,600 | 158,400 | 193,728 | 490,728 |
| Interfund services provided | 44,827 | 1,441 | - | 46,268 |
| Penalties | 8,041 | - | - | 8,041 |
| Other | 24,791 | 15,306 | 4,910 | 45,007 |
| Total operating revenues | 2,714,890 | 613,393 | 540,645 | 3,868,928 |
| Operating expenses: | | | | |
| Personal services | 124,118 | 124,577 | 111,759 | 360,454 |
| Contractual | 73,133 | 73,196 | 123,945 | 270,274 |
| Materials, supplies and maintenance | 2,198,953 | 55,480 | 62,869 | 2,317,302 |
| Utilities | 3,337 | 27,725 | 32,533 | 63,595 |
| Depreciation | 56,060 | 184,273 | 165,098 | 405,431 |
| Uncollectible accounts | 12,466 | - | 250 | 12,716 |
| Interfund services used | 10,835 | 18,682 | 32,909 | 62,426 |
| Other | 1,000 | - | - | 1,000 |
| Total operating expenses | 2,479,902 | 483,933 | 529,363 | 3,493,198 |
| Operating income | 234,988 | 129,460 | 11,282 | 375,730 |
| Non-operating revenues and (expenses): | | | | |
| Interest income | 34,764 | 33,043 | 14,493 | 82,300 |
| Interest expense | (1,194) | (89,450) | (35,008) | (125,652) |
| Grant proceeds | - | 36,881 | - | 36,881 |
| Total non-operating revenues (expenses) | 33,570 | (19,526) | (20,515) | (6,471) |
| Income before transfers | 268,558 | 109,934 | (9,233) | 369,259 |
| Transfers to Primary Government | (78,804) | (6,000) | (6,000) | (90,804) |
| Transfers in (out) Proprietary Funds | (71,500) | - | 71,500 | - |
| Change in net assets | 118,254 | 103,934 | 56,267 | 278,455 |
| Net assets at beginning of year | 3,186,300 | 3,593,069 | 4,274,766 | 11,054,135 |
| Net assets at end of year | $ 3,304,554 | 3,697,003 | 4,331,033 | 11,332,590 |

See notes to the financial statements.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows
Business-Type Activities
Year Ended June 30, 2007

| | | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Cash received from customers | $ | 2,596,973 | 589,728 | 521,262 | 3,707,963 |
| Cash payments to suppliers for goods and services | | (2,271,549) | (186,470) | (251,224) | (2,709,243) |
| Cash payments to employees for services | | (125,036) | (124,647) | (112,333) | (362,016) |
| Cash received for interfund services provided | | 44,827 | 1,441 | - | 46,268 |
| Cash paid for interfund services used | | (10,835) | (18,682) | (32,909) | (62,426) |
| Other income | | 24,791 | 15,306 | 4,910 | 45,007 |
| Other expense | | (1,000) | - | - | (1,000) |
| Net cash provided by operating activities | | 258,171 | 276,676 | 129,706 | 664,553 |
| Cash flows from noncapital financing activities: | | | | | |
| Cash from or to Primary Government funds | | (7,643) | (13,827) | (13,731) | (35,201) |
| Cash from or for interfund transactions | | 52,046 | (52,047) | 1 | - |
| Collection of loan receivable - Primary Government | | - | - | 40,000 | 40,000 |
| Transfers from or to Primary Government funds | | (78,804) | (6,000) | (6,000) | (90,804) |
| Transfers from or to interfund services | | (71,500) | - | 71,500 | - |
| Net cash provided (used) by noncapital financing activities | | (105,901) | (71,874) | 91,770 | (86,005) |
| Cash flows from capital and related financing activities: | | | | | |
| Loan proceeds | | - | 109,269 | 52,000 | 161,269 |
| Loan payments | | - | (102,000) | (55,000) | (157,000) |
| Grant proceeds | | - | 36,881 | - | 36,881 |
| Interest paid | | (1,194) | (87,951) | (36,764) | (125,909) |
| Acquisition and construction of capital assets | | (12,723) | (247,662) | (112,132) | (372,517) |
| Net cash provided (used) for capital and related financing activities | | (13,917) | (291,463) | (151,896) | (457,276) |
| Cash flows from investing activities: | | | | | |
| Interest on cash investments and notes receivable | | 34,771 | 32,381 | 13,962 | 81,114 |
| Collection of notes receivable from others | | 2,498 | - | - | 2,498 |
| Net cash provided (used) by investing activities | | 37,269 | 32,381 | 13,962 | 83,612 |
| Net increase (decrease) in cash and cash equivalents | | 175,622 | (54,280) | 83,542 | 204,884 |
| Cash and cash equivalents, beginning of year | | 1,463,579 | 854,920 | 400,996 | 2,719,495 |
| Cash and cash equivalents, end of year | $ | 1,639,201 | 800,640 | 484,538 | 2,924,379 |
| Reconciliation: | | | | | |
| Cash and cash equivalents | | | | | |
| Unrestricted and undesignated | $ | 1,589,136 | 789,370 | 484,538 | 2,863,044 |
| Restricted | | 50,065 | 11,270 | - | 61,335 |
| | $ | 1,639,201 | 800,640 | 484,538 | 2,924,379 |

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows - Continued
Business-Type Activities
Year Ended June 30, 2007

| | | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | | | | |
| Operating income | $ | 234,988 | 129,460 | 11,282 | 375,730 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation | | 56,060 | 184,273 | 165,098 | 405,431 |
| (Increase) decrease in operating assets: | | | | | |
| Accounts and other receivables | | (31,194) | - | (9,763) | (40,957) |
| Accrued billing | | (11,839) | (8,118) | (4,460) | (24,417) |
| Prepaid expenses | | 258 | (3,436) | (1,050) | (4,228) |
| Increase (decrease) in operating liabilities | | | | | |
| Accounts payable | | 12,885 | (26,633) | (30,827) | (44,575) |
| Other liabilities | | (9,269) | - | - | (9,269) |
| Accrued vacation pay | | (918) | (70) | (574) | (1,562) |
| Customer deposits | | 7,200 | 1,200 | - | 8,400 |
| Net cash provided by operating activities | $ | 258,171 | 276,676 | 129,706 | 664,553 |

See notes to the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.
All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utilities' funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2007 was $4,122,299 and the bank balance was $4,077,064. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

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 Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts. The Utilities currently invests only in certificates of deposit.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, has elected no valuation allowance at June 30, 2007. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities' reported net assets are segregated into Investment in capital assets (net of related debt) and Unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

| | |
|---|---|
| Structure and Plant | 20 – 50 years |
| Distribution System | 50 years |
| Equipment, Meters and Mains | 3 – 50 years |

E. Designated funds

Designated funds include cash and certificates of deposits set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities 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 Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were $17,781, $17,356, and $17,721, respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

2. Note Receivable

On June 6, 2002, the Utilities entered into a loan agreement with a local manufacturing business to loan the business $50,000, bearing interest at five percent. The Utilities advanced the company $26,302 as of June 30, 2002 and the remainder as of June 30, 2003. The current balance at June 30, 2007 is $43,607 and becomes due in monthly principal and interest payments of $395, with final balloon payment of $42,963 payable October 15, 2007.

3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a $40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum. The Bond is due in 20 equal semi-annual installments of $2,508 each December 1, and June 1 commencing December 1, 2007. The Bond matures on June 1, 2017.

4. Designated funds

The composition of Board designated funds included in cash and cash equivalents and certificates of deposits, at June 30, 2007 is as follows:

| | Gas | Water | Sanitation |
|---|---|---|---|
| Capital Improvements and Replacement | $ 978,754 | 770,329 | 158,862 |
| Medical Reimbursement | 39,733 | 4,138 | 4,317 |
| Industrial Development | 870 | 34,882 | 39,501 |
| | $ 1,019,357 | 809,349 | 202,680 |

5. Restricted Assets – Cash and Cash Equivalents

Restricted assets are comprised of cash in bank and certificates of deposit that can be used only to repay customer deposits.

6. Changes in Capital Assets

A summary of changes in capital assets follows:

| | Balance 7/1/06 | Additions | Deletions | Balance 6/30/07 |
|---|---|---|---|---|
| Land | $ 152,648 | - | - | 152,648 |
| Structures & plant | 5,199,679 | 3,424,969 | - | 8,624,648 |
| Distribution system | 4,455,479 | 37,873 | - | 4,493,352 |
| Equipment, meters & mains | 2,324,070 | 1,122,530 | - | 3,446,600 |
| Construction in progress | 4,212,855 | - | 4,212,855 | - |
| Total | $ 16,344,731 | 4,585,372 | 4,212,855 | 16,717,248 |

7. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

$50,000, interest free, Interim Loan and Disbursement Agreement with the Iowa Finance Authority due April 12, 2010. At June 30, 2007, the loan balance totaled $50,000.

$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond Series 2005 due in annual

payments of $102,000 – 179,000 (currently $102,000) to June 1, 2026, and interest at 3.00%. At June 30, 2007, the loan balance totaled $2,648,000.

$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of $20,000 – 35,000 (currently $25,000) to June 1, 2025, and interest at 3.00%. At June 30, 2007, the loan balance totaled $555,000,

$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of $6,000 - $15,000 (currently $10,000) to June 1, 2018, and interest at 3.92%. At June 30, 2007, the loan balance totaled $122,000.

$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of $13,000 - $25,000 (currently $20,000) to June 1, 2018, and interest at 4.23%. At June 30, 2007, the loan balance totaled $230,000.

Annual estimated debt service requirements related to the loans are as follows:

| Year Ending June 30, | | Principal | Interest | Total |
|---|---|---|---|---|
| 2008 | $ | 160,000 | 110,601 | 270,601 |
| 2009 | | 164,000 | 105,463 | 269,463 |
| 2010 | | 167,000 | 100,205 | 267,205 |
| 2011 | | 170,000 | 94,857 | 264,857 |
| 2012 | | 174,000 | 89,419 | 263,419 |
| 2013-2025 | | 2,720,000 | 626,226 | 3,346,226 |
| | $ | 3,555,000 | 1,126,771 | 4,681,771 |

8. Employee Benefits - Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a $1,500 deductible per individual and a $3,000 per family co-insurance clause. The Utilities then self-insures $1,250 of the $1,500 deductible.

9. Risk Management

The Utilities 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 Utilities 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.

10. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2007, the Component Unit remitted $300,784 in billings to the Primary Government.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Required Supplementary Information
Year Ended June 30, 2007

Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual

| | Actual | Budgeted Amounts Original | Budgeted Amounts Final | Final to Actual Variance |
|---|---|---|---|---|
| Operating revenues | $ 3,868,928 | 5,996,394 | 5,996,394 | (2,127,466) |
| Operating expenses | 3,493,198 | 5,507,757 | 5,507,757 | 2,014,559 |
| Operating income | 375,730 | 488,637 | 488,637 | (112,907) |
| Non-operating revenues and (expenses) | (6,471) | (61,349) | (61,349) | 54,878 |
| Transfers to Primary Government | (90,804) | (75,804) | (75,804) | (15,000) |
| Net assets at beginning of year | 11,054,135 | 11,054,135 | 11,054,135 | |
| Net assets at end of year | $ 11,332,590 | 11,405,619 | 11,405,619 | |

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

See Independent Auditors' Report.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses
Year Ended June 30, 2007

| | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|
| Personal services: | | | | |
| Trustee fees | $ 1,800 | 1,350 | 1,350 | 4,500 |
| Administrative salaries | 12,910 | 12,910 | 13,209 | 39,029 |
| Office salaries | 15,173 | 14,317 | 14,316 | 43,806 |
| Plant labor | 71,525 | 73,217 | 63,794 | 208,536 |
| Extra labor | 2,255 | 2,305 | 2,255 | 6,815 |
| Overtime | 5,782 | 6,021 | 3,830 | 15,633 |
| IPERS | 6,142 | 6,131 | 5,508 | 17,781 |
| Payroll taxes | 8,531 | 8,326 | 7,497 | 24,354 |
| Total personal services | 124,118 | 124,577 | 111,759 | 360,454 |
| Contractual: | | | | |
| Advertising | 2,259 | 1,980 | 3,279 | 7,518 |
| Professional | 4,217 | 5,316 | 52,471 | 62,004 |
| Insurance | 7,529 | 17,834 | 15,328 | 40,691 |
| Health insurance and risk fund | 31,083 | 41,393 | 32,126 | 104,602 |
| Analytical testing and contract | - | 729 | 18,306 | 19,035 |
| Drug testing | 202 | - | - | 202 |
| Defense group expense | 2,328 | - | - | 2,328 |
| Regulatory commission | 15,084 | 4,754 | 1,047 | 20,885 |
| Conference and education | 4,571 | 1,190 | 1,388 | 7,149 |
| Regulation and compliance | 379 | - | - | 379 |
| Energy efficiency plan | 4,544 | - | - | 4,544 |
| Collection expense | 937 | - | - | 937 |
| Total contractual | 73,133 | 73,196 | 123,945 | 270,274 |
| Materials, supplies and maintenance: | | | | |
| Cost of natural gas purchased | 2,158,226 | - | - | 2,158,226 |
| Maintenance supplies | 2,090 | 3,064 | 7,684 | 12,838 |
| Automotive supplies and expense | 4,353 | 4,719 | 4,321 | 13,393 |
| Other equipment supplies and expense | 1,780 | 541 | 9,197 | 11,518 |
| Computer maintenance and supplies | 5,092 | 4,281 | 4,146 | 13,519 |
| Chemicals | - | 13,475 | 833 | 14,308 |
| Maintenance and materials - mains | 16,328 | 8,253 | - | 24,581 |
| Treatment plant maintenance | - | 1,341 | - | 1,341 |
| Water well maintenance | - | 3,726 | - | 3,726 |
| Collection system maintenance | - | - | 5,930 | 5,930 |
| Lift station maintenance | - | - | 3,412 | 3,412 |
| Office supplies | 8,903 | 9,224 | 8,419 | 26,546 |
| Uniforms | 814 | 971 | 433 | 2,218 |
| Maintenance buildings and grounds | 940 | 4,108 | 18,494 | 23,542 |
| Miscellaneous | 427 | 1,777 | - | 2,204 |
| Total materials, supplies and maintenance | 2,198,953 | 55,480 | 62,869 | 2,317,302 |

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses - Continued
Year Ended June 30, 2007

| | Gas Fund | Water Fund | Sanitation Fund | Total |
|---|---|---|---|---|
| Utilities: | | | | |
| Lift station power | $ - | - | 5,982 | 5,982 |
| Telephone | 1,612 | 2,171 | 2,027 | 5,810 |
| Electric | 1,725 | 25,554 | 24,524 | 51,803 |
| Total utilities | 3,337 | 27,725 | 32,533 | 63,595 |
| Depreciation | 56,060 | 184,273 | 165,098 | 405,431 |
| Uncollectible accounts | 12,466 | - | 250 | 12,716 |
| Interfund services used: | | | | |
| Administrative fees - Primary Government | 8,137 | 8,137 | 8,137 | 24,411 |
| Utility fees to Emmetsburg Municipal Utilities | 2,698 | 10,545 | 24,772 | 38,015 |
| Total interfund services used | 10,835 | 18,682 | 32,909 | 62,426 |
| Other expenses: | | | | |
| Donations | 1,000 | - | - | 1,000 |
| Total other expenses | 1,000 | - | - | 1,000 |
| Total operating expenses | $ 2,479,902 | 483,933 | 529,363 | 3,493,198 |

See Independent Auditors' Report.

**Burdorf, Parrott And Associates, P.C.**
Certified Public Accountants

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## INDEPENDENT AUDITORS' 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
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2007, and have issued our reports thereon dated January 17, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a 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 the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the utilities' financial statements that is more than inconsequential will not be prevented or detected by the utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 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 that a material misstatement of the financial statements will not be prevented or detected by the 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 an, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the reportable condition described in item I-B-07, is a material weakness.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' 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 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.

The 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 Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal 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.

*Burdorf, Parrott And Associates, P.C.*

January 17, 2008

EMMETSBURG MUNICIPAL UTILITIES

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-07 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities' component financial statements. We noted that one individual at the Utilities' office has custody of receipts and performs all record-keeping and reconciling functions for the office.

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

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the Board of Trustees along with the administration's monitoring of transactions is the best we can do.

Conclusion - Response accepted.

I-A-07 Financial Reporting – The internal control structure of the Utilities has focused primarily on the objective of effectiveness and efficiency of operations (i.e., performance and mission goals and safeguarding of resources.) However, the system of internal control over the objectives of reliability of financial reporting contains certain deficiencies. A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2007, there was no one on staff with sufficient knowledge to prepare GAAP-based financial statements. As a result, certain material adjustments had to be made by the auditors. Material adjustments included reclassifying transfers, grant funds and loans from unrestricted net assets, to adjust loan balances and interest expense, and to set up the Urban Renewal Tax Increment Revenue Bond receivable from the Primary Government. Since these adjustments resulted in a material misstatement of the financial statements, this deficiency is deemed to be a material weakness.

Recommendation – The Utilities should consider additional training for the individuals in charge of preparing the financial statements. In addition, the individuals can call the auditors during the year and ask how to record the more difficult transactions. This will enable the Utilities to have monthly statements that reflect GAAP accounting and help to make sure the budget is not overspent prior to an amendment.
Response – It is not unusual in governments our size and as a result of management's cost benefit decision to rely on the accounting expertise of our auditor. Therefore, we will

make every effort to learn from the adjusting entries you have given us and to call and ask how to record the more complicated transactions.

Conclusion – Response accepted

Part II: Other Findings Related to Required Statutory Reporting

II-A-07 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.

II-B-07 Certified Budget - Expenditures during the year ended June 30, 2007 did not exceed the budget for the year.

II-C-07 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.

II-D-07 Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.

II-E-07 Business Transactions - Business transactions between the Utilities and Utilities' officials or employees are as follows:

| Name, Title and Business Connection | Description of Transaction | Amount |
|---|---|---|
| Paul Saxton, Trustee<br>Saxton's Greenhouse | Purchase of plants, flowers, and mulch | $114 |
| Nick Steinkamp, Trustee<br>K & W Electric, Inc. | Repairs | $393 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Saxton's Greenhouse and K & W Electric, Inc. do not appear to represent a conflict of interest since it is not more than $1,500.

II-F-07 Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

II-G-07 Council Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-H-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

II-I-07 Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.