

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

Remsen, Iowa

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

June 30, 2008

# Municipal Utilities of the City of Remsen

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# Municipal Utilities of the City of Remsen

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Kolker	Chairman	January 2014
Stephen Matgen	Trustee	January 2010
Tom Bacan	Trustee	January 2012
Steve Pick	Operations Director	
Ron Mayer	Superintendent	



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

Member Private Companies Practice Section of AICPA

522 4TH STREET, SUITE 200  
SIOUX CITY, IA 51101-1620  
(712) 258-5550  
FAX (712) 277-6705

## Independent Auditor's Report

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

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, a component unit of the City, as of and for the year ended June 30, 2008, which collectively comprise the Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Remsen's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Municipal Utilities' 2007 financial statements and, in our report dated January 8, 2008, we expressed unqualified opinions on the respective financial statements of each major fund and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



KING, REINSCH, PROSSER & CO., LLP  
Certified Public Accountants

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2009, on our consideration of the Municipal Utilities of the City of Remsen's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 19 through 21, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipal Utilities of the City of Remsen's basic financial statements. Supplementary information included on pages 22 through 28 are presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*King Reinsch Prosser & Co LLP*

Sioux City, Iowa  
February 3, 2009

## **Management's Discussion and Analysis**

Municipal Utilities of the City of Remsen provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the financial statements, which follow.

### **2008 Financial Highlights**

- The Municipal Utilities' assets exceed liabilities by \$4,678,120 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,476,722.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$2,780,871 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Nets assets of \$2,501 are restricted by constraints imposed from outside the Municipal Utilities which include debt covenants.
  - (3) Unrestricted net assets of \$1,894,748 represent the portion available to maintain the Municipal Utilities' continuing obligations to citizens and creditors.
- At the end of the current fiscal year, net assets increased by \$201,398. The increase was due to an increase in operating revenues.

### **Using This Annual Report**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the financial activities.

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

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

Required Supplementary Information explains further and supports the financial statements with a comparison of the budget for the year.

Supplementary Information provides detailed information about nonmajor proprietary funds.

## Reporting the Municipal Utilities Financial Activities

### *The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets*

One of the most important questions asked about the Municipal Utilities' finances is "Is the Municipal Utilities as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information about the Municipal Utilities' resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all 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 Municipal Utilities' net assets, which is the difference between assets and liabilities, as one way to measure the Municipal Utilities' financial health or financial position. Over time, increases or decreases in the Municipal Utilities' net assets are one indicator of whether its financial position is improving or deteriorating.

### *The Statement of Cash Flows*

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

## Financial Analysis of the Municipal Utilities

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Municipal Utilities' net assets at fiscal year-end are \$4,678,120. This is a \$201,398 increase over last year's net assets of \$4,476,722. The following table provides a summary of assets, liabilities and net assets at June 30:

	2008	2007	Amount Change	Percentage Change
Current and other assets	\$ 2,076,660	\$ 1,911,515	\$ 165,145	8.64%
Capital assets	2,959,992	2,984,041	(24,049)	-0.81%
Total assets	5,036,652	4,895,556	141,096	2.88%
Long-term liabilities	129,121	178,642	(49,521)	-27.72%
Other liabilities	229,411	240,192	(10,781)	-4.49%
Total liabilities	358,532	418,834	(60,302)	-14.40%
Net assets:				
Invested in capital assets, net of related debt	2,780,871	2,755,399	25,472	0.92%
Restricted for debt service	2,501	2,501	-	0.00%
Unrestricted	1,894,748	1,718,822	175,926	10.24%
Total net assets	\$ 4,678,120	\$ 4,476,722	\$ 201,398	4.50%

The Municipal Utilities reported positive balances in net assets for all funds. Net assets increased \$201,398 due primarily to an increase in operating revenues.

The following shows the Municipal Utilities' changes in net assets for the year ended June 30:

	<u>2008</u>	<u>2007</u>	<u>Amount Change</u>	<u>Percentage Change</u>
<b>Operating revenues:</b>				
Charges for services	\$ 2,234,619	\$ 2,170,514	\$ 64,105	2.95%
<b>Operating expenses:</b>				
Personal services	300,476	279,975	20,501	7.32%
Contractual services	34,432	12,309	22,123	179.73%
Utilities	21,435	25,770	(4,335)	-16.82%
Repairs and maintenance	7,821	16,055	(8,234)	-51.29%
Other supplies and expenses	1,403,537	1,385,949	17,588	1.27%
Insurance claims and expenses	67,005	67,264	(259)	-0.39%
Depreciation	203,461	142,146	61,315	43.14%
Total operating expenses	<u>2,038,167</u>	<u>1,929,468</u>	<u>108,699</u>	<u>5.63%</u>
Operating income	<u>196,452</u>	<u>241,046</u>	<u>(44,594)</u>	<u>-18.50%</u>
<b>Non-operating revenues (expenses):</b>				
Interest and investment revenue	49,558	63,925	(14,367)	-22.47%
Interest expense	(9,719)	(11,688)	1,969	-16.85%
Miscellaneous expenses	(479)	(479)	-	0.00%
Total non-operating revenue	<u>39,360</u>	<u>51,758</u>	<u>(12,398)</u>	<u>-23.95%</u>
Income before transfers	235,812	292,804	(56,992)	-19.46%
Transfers in	35,193	11,660	23,533	201.83%
Transfers out	(69,607)	(71,660)	2,053	-2.86%
Changes in net assets	<u>201,398</u>	<u>232,804</u>	<u>(31,406)</u>	<u>-13.49%</u>
Total net assets - beginning	<u>4,476,722</u>	<u>4,243,918</u>	<u>232,804</u>	<u>5.49%</u>
Total net assets - ending	<u>\$ 4,678,120</u>	<u>\$ 4,476,722</u>	<u>\$ 201,398</u>	<u>4.50%</u>

### **Financial Analysis of the Municipal Utilities' Funds**

#### *Major Funds*

The Water Utility Fund accounts for the operation and maintenance of the City's water system. The transfer from the City's Urban Renewal Tax Increment for repayment of internal debt contributed primarily to the increase in net assets of \$51,393.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric system. The gross profit margins on charges for electrical services contributed primarily to the increase in net assets of \$159,259.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. The increasing cost of gas purchased and transfer of \$30,000 to the City of Remsen contributed primarily to the decrease in net assets of \$10,097.

### **Budgetary Highlights**

The budget for the fiscal year 2008 was approximately \$2.7 million. This was an increase of approximately \$120,000 over the previous year budget. In 2008, the budget included amounts for higher purchased utility costs.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

The Municipal Utilities' investment in capital assets, net of accumulated depreciation as of June 30, 2008 was \$2,959,992. The total decrease in this net investment was 0.81 percent. For additional information about changes in capital assets during the fiscal year, see the notes to the financial statements.

	<u>2008</u>	<u>2007</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Construction in process	7,898	36,708	(28,810)	-78.48%
Depreciable assets:				
Utility systems	2,690,581	2,778,260	(87,679)	-3.16%
Equipment	143,441	39,545	103,896	262.73%
Automotive equipment	29,354	40,810	(11,456)	-28.07%
Total	<u>\$ 2,959,992</u>	<u>\$ 2,984,041</u>	<u>\$ (24,049)</u>	<u>-0.81%</u>

#### *Long-term Debt*

At the end of the fiscal year, the Municipal Utilities had total bonded debt outstanding of \$180,000. This debt is supported by pledged revenues generated primarily by the Water Utility Fund (revenue bonds). See the notes of the financial statements for additional discussion.

### **Economic Environment and Next Year's Budget and Rates**

Municipal Utilities' appointed officials and citizens considered many factors when setting the fiscal year 2009 budget and utility rates that will be charged for various utilities. One of these factors is the state of the economy.

The Municipal Utilities has budgeted to install electric primary lines and water and gas mains in agricultural land located on the east side of town to accommodate an assisted living facility.

This indicator was taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget for all Municipal Utilities' funds are \$2.6 million. Budgeted disbursements are expected to increase by 8% for utility capital improvement projects.

**Contacting the Municipal Utilities' Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Pick, Utility Operations Director, P.O. Box 510, Remsen, IA 51050.

# **FINANCIAL STATEMENTS**

**Municipal Utilities of the City of Remsen**  
**Statement of Net Assets**  
**June 30, 2008**  
(With Comparative Totals For June 30, 2007)

	<u>Water Utility</u>	<u>Utility</u>	<u>Gas Utility</u>	<u>Enterprise</u>	<u>Total 2008</u>	<u>Total 2007</u>
<b>Assets:</b>						
Current assets:						
Cash	\$ 100,616	\$ 1,039,491	\$ 359,656	\$ 4,411	\$ 1,504,174	\$ 1,384,669
Accounts receivable	22,721	82,480	85,918	-	191,119	167,804
Accrued interest receivable	41	5,576	2,820	-	8,437	11,409
Inventories	7,329	85,349	9,003	-	101,681	81,439
Prepaid insurance	11,807	21,057	19,465	-	52,329	47,329
Total current assets	<u>142,514</u>	<u>1,233,953</u>	<u>476,862</u>	<u>4,411</u>	<u>1,857,740</u>	<u>1,692,650</u>
Non-current assets:						
Investments	-	184,795	-	-	184,795	190,128
Restricted cash	-	-	-	34,125	34,125	28,737
Capital assets:						
Land and improvements	82,218	-	6,500	-	88,718	88,718
Construction in process	7,898	-	-	-	7,898	36,708
Utility system	2,518,446	3,808,594	625,871	-	6,952,911	6,870,454
Equipment	88,566	228,917	174,254	-	491,737	365,972
Less: accumulated depreciation	<u>(1,117,961)</u>	<u>(3,020,663)</u>	<u>(442,648)</u>	<u>-</u>	<u>(4,581,272)</u>	<u>(4,377,811)</u>
Total capital assets	<u>1,579,167</u>	<u>1,016,848</u>	<u>363,977</u>	<u>-</u>	<u>2,959,992</u>	<u>2,984,041</u>
Total non-current assets	<u>1,579,167</u>	<u>1,201,643</u>	<u>363,977</u>	<u>34,125</u>	<u>3,178,912</u>	<u>3,202,906</u>
Total assets	<u>1,721,681</u>	<u>2,435,596</u>	<u>840,839</u>	<u>38,536</u>	<u>5,036,652</u>	<u>4,895,556</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	24,509	50,847	71,368	-	146,724	162,512
Accrued interest payable	1,063	-	-	-	1,063	1,444
Meter deposits	-	-	-	31,624	31,624	26,236
Bonds and notes payable	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Total current liabilities	<u>75,572</u>	<u>50,847</u>	<u>71,368</u>	<u>31,624</u>	<u>229,411</u>	<u>240,192</u>
Non-current liabilities:						
Bonds and notes payable	<u>129,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,121</u>	<u>178,642</u>
Total non-current liabilities	<u>129,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,121</u>	<u>178,642</u>
Total liabilities	<u>204,693</u>	<u>50,847</u>	<u>71,368</u>	<u>31,624</u>	<u>358,532</u>	<u>418,834</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,400,046	1,016,848	363,977	-	2,780,871	2,755,399
Restricted for debt service	-	-	-	2,501	2,501	2,501
Unrestricted	<u>116,942</u>	<u>1,367,901</u>	<u>405,494</u>	<u>4,411</u>	<u>1,894,748</u>	<u>1,718,822</u>
Total net assets	<u>\$ 1,516,988</u>	<u>\$ 2,384,749</u>	<u>\$ 769,471</u>	<u>\$ 6,912</u>	<u>\$ 4,678,120</u>	<u>\$ 4,476,722</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2008**  
**(With Comparative Totals For June 30, 2007)**

	Water Utility	Electric Utility	Gas Utility	Other Enterprise Funds	Total 2008	Total 2007
<b>Operating revenues:</b>						
Charges for services	\$ 237,011	\$ 1,038,978	\$ 958,630	\$ -	\$ 2,234,619	\$ 2,170,514
Total operating revenues	<u>237,011</u>	<u>1,038,978</u>	<u>958,630</u>	<u>-</u>	<u>2,234,619</u>	<u>2,170,514</u>
<b>Operating expenses:</b>						
Personal services	42,280	128,739	129,457	-	300,476	279,975
Contractual services	23,683	6,513	4,236	-	34,432	12,309
Utilities	13,059	7,552	824	-	21,435	25,770
Repairs and maintenance	-	5,428	2,393	-	7,821	16,055
Other supplies and expenses	35,103	587,204	781,230	-	1,403,537	1,385,949
Insurance claims and expenses	14,372	27,848	24,785	-	67,005	67,264
Depreciation	75,884	109,986	17,591	-	203,461	142,146
Total operating expenses	<u>204,381</u>	<u>873,270</u>	<u>960,516</u>	<u>-</u>	<u>2,038,167</u>	<u>1,929,468</u>
Operating income (loss)	<u>32,630</u>	<u>165,708</u>	<u>(1,886)</u>	<u>-</u>	<u>196,452</u>	<u>241,046</u>
<b>Non-operating revenues (expenses):</b>						
Interest and investment revenue	3,263	23,551	21,789	955	49,558	63,925
Interest expense	-	-	-	(9,719)	(9,719)	(11,688)
Miscellaneous expenses	(479)	-	-	-	(479)	(479)
Total non-operating revenue (expenses)	<u>2,784</u>	<u>23,551</u>	<u>21,789</u>	<u>(8,764)</u>	<u>39,360</u>	<u>51,758</u>
Income (loss) before transfers	35,414	189,259	19,903	(8,764)	235,812	292,804
Transfers in	25,586	-	-	9,607	35,193	11,660
Transfers out	(9,607)	(30,000)	(30,000)	-	(69,607)	(71,660)
Change in net assets	51,393	159,259	(10,097)	843	201,398	232,804
Total net assets - beginning	<u>1,465,595</u>	<u>2,225,490</u>	<u>779,568</u>	<u>6,069</u>	<u>4,476,722</u>	<u>4,243,918</u>
Total net assets - ending	<u>\$ 1,516,988</u>	<u>\$ 2,384,749</u>	<u>\$ 769,471</u>	<u>\$ 6,912</u>	<u>\$ 4,678,120</u>	<u>\$ 4,476,722</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2008**  
**(With Comparative Totals For June 30, 2007)**

	Water Utility	Electric Utility	Gas Utility	Other Enterprise Funds	Total 2008	Total 2007
<b>Cash flows from operating activities:</b>						
Cash received from (paid to) customers	\$ 238,258	\$ 1,048,184	\$ 924,862	\$ 5,388	\$ 2,216,692	\$ 2,183,813
Cash payments to suppliers for goods and services	(81,419)	(659,550)	(807,446)	-	(1,548,415)	(1,502,661)
Cash payments to employees	(42,280)	(128,739)	(129,457)	-	(300,476)	(279,975)
Net cash provided (used) by operating activities	<u>114,559</u>	<u>259,895</u>	<u>(12,041)</u>	<u>5,388</u>	<u>367,801</u>	<u>401,177</u>
<b>Cash flows from non-capital financing activities:</b>						
Transfers to other funds	(9,607)	-	-	-	(9,607)	(11,660)
Transfers from other funds	-	-	-	9,607	9,607	11,660
Transfers from City of Remsen	25,586	-	-	-	25,586	-
Transfers to City of Remsen	-	(30,000)	(30,000)	-	(60,000)	(60,000)
Net cash provided (used) by non-capital financing activities	<u>15,979</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>9,607</u>	<u>(34,414)</u>	<u>(60,000)</u>
<b>Cash flows from capital and related financing activities:</b>						
Principal payments under bond obligations	(50,000)	-	-	-	(50,000)	(45,000)
Interest payments under bond obligations	(381)	-	-	(9,719)	(10,100)	(12,047)
Purchases of capital assets	(69,582)	(101,745)	(34,930)	-	(206,257)	(175,698)
Net cash provided (used) by capital and related financing activities	<u>(119,963)</u>	<u>(101,745)</u>	<u>(34,930)</u>	<u>(9,719)</u>	<u>(266,357)</u>	<u>(232,745)</u>
<b>Cash flows from investing activities:</b>						
Investment income	3,267	25,501	22,807	955	52,530	62,778
Investments in MBMECA	-	5,333	-	-	5,333	(10,412)
Net cash provided (used) by investing activities	<u>3,267</u>	<u>30,834</u>	<u>22,807</u>	<u>955</u>	<u>57,863</u>	<u>52,366</u>
Net increase (decrease) in cash	13,842	158,984	(54,164)	6,231	124,893	160,798
Cash and restricted cash - beginning	86,774	880,507	413,820	32,305	1,413,406	1,252,608
Cash and restricted cash - ending	<u>\$ 100,616</u>	<u>\$ 1,039,491</u>	<u>\$ 359,656</u>	<u>\$ 38,536</u>	<u>\$ 1,538,299</u>	<u>\$ 1,413,406</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 32,630	\$ 165,708	\$ (1,886)	\$ -	\$ 196,452	\$ 241,046
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	75,884	109,986	17,591	-	203,461	142,146
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	1,247	9,206	(33,768)	-	(23,315)	18,748
(Increase) decrease in inventories	(2,628)	(15,464)	(2,150)	-	(20,242)	-
(Increase) decrease in prepaid insurance	(1,807)	(1,121)	(2,072)	-	(5,000)	(3,731)
Increase (decrease) in accounts payable	9,233	(8,420)	10,244	-	11,057	8,417
Increase (decrease) in meter deposits	-	-	-	5,388	5,388	(5,449)
Net cash provided (used) by operating activities	<u>\$ 114,559</u>	<u>\$ 259,895</u>	<u>\$ (12,041)</u>	<u>\$ 5,388</u>	<u>\$ 367,801</u>	<u>\$ 401,177</u>
<b>Supplemental schedule of noncash investing, capital, and financing transactions:</b>						
Capital assets purchased by short-term debt (accounts payable)	<u>\$ 12,447</u>	<u>\$ 7,266</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 34,713</u>	<u>\$ 61,558</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Municipal Utilities is a discretely presented component unit of the City of Remsen, Iowa, with a function of providing utility services to the residents of the City of Remsen. Although the Utilities are legally separate from the City, they remain financially accountable to the City. The operation of the Utilities is governed by a Board of Trustees, which is appointed by the City Council of Remsen, Iowa.

Basis of Presentation - The statement of net assets displays the Municipal Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt attributable to the acquisition, construction or improvement of those assets.

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

*Unrestricted net assets* - consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Major individual funds are reported as separate columns in the financial statements. All remaining funds are aggregated and reported as nonmajor funds.

When both restricted and unrestricted resources are available for use, it is the Municipal Utilities' policy to use restricted resources first, then unrestricted resources as needed.

Measurement Focus and Basis of Accounting - The financial statements of the Municipal Utilities are prepared in accordance with generally accepted accounting principles (GAAP). The entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. It does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the funds. Principal operating revenues for the funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expense are classified as non-operating in the financial statements.

Major Funds - The Municipal Utilities reports the following major funds:

*Water Utility* - accounts for the operation and maintenance of the water system.

*Electric Utility* - accounts for the operation and maintenance of the electric system.

*Gas Utility* - accounts for the operation and maintenance of the natural gas system.

Budgets and Budgetary Accounting - In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program.

Cash and Cash Equivalents - For purposes of the financial statement of cash flows, the City considers all certificates of deposit with maturities of one year or less to be cash equivalents.

Recognition of Revenues - In accordance with industry practice, Municipal Utilities records revenues when service is actually billed to the customer.

Capital Assets, Depreciation and Maintenance - The Municipal Utilities' property, plant, and equipment, and infrastructure with useful lives of more than one year are stated at historical cost. The provisions for depreciation are based on straight-line rates varying from 5 to 50 years for utility property and equipment. Maintenance is charged for repairs of property and any replacements and renewals of items which do not materially extend the life of the asset.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Accounts Receivable - Accounts receivable are reported at their expected realizable value.

Inventory - Inventory is presented at the lower of first-in, first-out (FIFO) cost or market.

Management's Use of Estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

NOTE B - CASH:

The Utilities' deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. During the year ended June 30, 2008, the Municipal Utilities held no cash equivalents.

Cash is composed accordingly as of June 30, 2008:

Checking accounts	\$ 760,299
Certificates of deposit	778,000
Total	<u>\$ 1,538,299</u>

NOTE C - INVESTMENTS:

The members of Missouri Basin Municipal Electric Cooperative have agreed to establish a restricted fund for future expansion of their transmission facility. Each member pays \$.0050 per 100 KWH used into the fund. The City of Remsen Municipal Utilities' share of the fund decreased by \$5,333 during the current fiscal year to a June 30, 2008 balance of \$184,795.

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

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

NOTE D - RESTRICTED ASSETS:

At June 30, 2008, \$2,501 of net assets restricted for debt service includes the excess of assets over certain liabilities restricted for the debt service on revenue bonds. The City also held \$31,624 of customer utility deposits at June 30, 2008. Restricted assets are reported in various funds for cash deposited in bank accounts legally restricted for specific uses such as the payment of debt service and refund of utility deposits. See Note A describing the priority for use of restricted and unrestricted assets.

NOTE E - CAPITAL ASSETS:

A summary of changes in the capital assets for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,718	\$ -	\$ -	\$ 88,718
Construction in process	36,708	7,898	36,708	7,898
Total capital assets not being depreciated	<u>125,426</u>	<u>7,898</u>	<u>36,708</u>	<u>96,616</u>
Capital assets being depreciated:				
Water utility system	2,518,446	-	-	2,518,446
Electric utility system	3,750,152	58,442	-	3,808,594
Gas utility system	601,856	24,015	-	625,871
Equipment	196,329	125,765	-	322,094
Automotive equipment	169,643	-	-	169,643
Total capital assets being depreciated	<u>7,236,426</u>	<u>208,222</u>	<u>-</u>	<u>7,444,648</u>
Less accumulated depreciation:				
Water utility system	(1,007,887)	(71,889)	-	(1,079,776)
Electric utility system	(2,785,998)	(85,026)	-	(2,871,024)
Gas utility system	(298,309)	(13,221)	-	(311,530)
Equipment	(156,784)	(21,869)	-	(178,653)
Automotive equipment	(128,833)	(11,456)	-	(140,289)
Total accumulated depreciation	<u>(4,377,811)</u>	<u>(203,461)</u>	<u>-</u>	<u>(4,581,272)</u>
Total net capital assets being depreciated	<u>2,858,615</u>	<u>4,761</u>	<u>-</u>	<u>2,863,376</u>
Total business-type activities capital assets, net	<u>\$ 2,984,041</u>	<u>\$ 12,659</u>	<u>\$ 36,708</u>	<u>\$ 2,959,992</u>

Depreciation expense of \$203,461 was charged to the business type activities function on the statement of activities.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

NOTE F - BONDED INDEBTEDNESS:

Water Revenue Bonds - The City has pledged future water net earnings to repay \$245,000 in water revenue bonds issued in March 1999. Proceeds from the bonds refinanced pre-existing water revenue bonds. The bonds are payable solely from water customer net earnings and are payable through 2010. Since net earnings has not been defined elsewhere, the City defines net earnings as change in net assets as determined in accordance with generally accepted accounting principles. Annual principal and interest payments on the bonds are expected to require 100 percent of net earnings. The total principal and interest remaining to be paid on the bonds is \$53,725. For the year ended June 30, 2008, principal and interest paid and total customer net earnings were \$28,675 and \$51,393, respectively.

Water Revenue Capital Loan Notes - The City has pledged future water net revenues to repay \$235,000 in water revenue notes issued in December 2001. Proceeds from the notes provided financing for the construction improvements and extensions to the Municipal Water Utility. The notes are payable solely from water customer net revenue and are payable through 2011. Since net revenues has not been defined elsewhere, the City defines net revenues as total charges for services as determined in accordance with generally accepted accounting principles. Annual principal and interest payments on the notes are expected to require less than 35 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$143,238. For the year ended June 30, 2008, principal and interest paid and total customer net revenues were \$31,425 and \$237,011, respectively.

During the year ended June 30, 2008 the following changes occurred in Long-Term Debt:

	Balance			Balance		Due Within One Year
	June 30, 2007	Additions	Retirements	June 30, 2008		
Water Revenue Bonds	\$ 75,000	\$ -	\$ 25,000	\$ 50,000	\$ 25,000	
Water Capital Loan Notes	155,000	-	25,000	130,000	25,000	
	230,000	-	50,000	180,000	50,000	
Less: Unamortized Discount	1,358	-	479	879	-	
	<u>\$ 228,642</u>	<u>\$ -</u>	<u>\$ 49,521</u>	<u>\$ 179,121</u>	<u>\$ 50,000</u>	

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

Year Ending June 30,	Water Revenue Bonds		Water Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 25,000	\$ 2,475	\$ 25,000	\$ 5,425	\$ 50,000	\$ 7,900
2010	25,000	1,250	25,000	4,413	50,000	5,663
2011	-	-	80,000	3,400	80,000	3,400
	<u>\$ 50,000</u>	<u>\$ 3,725</u>	<u>\$ 130,000</u>	<u>\$ 13,238</u>	<u>\$ 180,000</u>	<u>\$ 16,963</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE G - PENSION AND RETIREMENT BENEFITS:**

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

Plan members are required to contribute 3.90 percent of their annual salary and the Utilities are required to contribute 6.05 percent of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$11,976, \$10,510 and \$9,396, respectively, equal to the required contribution for each year.

**NOTE H - COMPENSATED ABSENCES:**

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008 is considered immaterial.

**NOTE I - TRANSFERS:**

Water Utility Fund:

During the year ended June 30, 2008, transfers out totaling \$9,607 were made from the Water Utility Fund to the Water Reserve Fund. This is a routine transfer for the semi-annual payments of interest on the revenue bond and notes in accordance with the debt resolutions.

The Water Utility Fund received a transfer in of \$25,586 from Urban Renewal Tax Increment from the primary government, the City of Remsen, for repayment of internal debt.

Electric Utility Fund:

During the year ended June 30, 2008, a transfer out of \$30,000 was made to the primary government, the City of Remsen. This is a routine transfer to the City in lieu of taxes.

Gas Utility Fund:

Transfer of \$30,000 was made from the Gas Utility Fund to the primary government, the City of Remsen, during the year ended June 30, 2008. This is a routine transfer to the City in lieu of taxes.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2008**

NOTE J - RISK MANAGEMENT:

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

NOTE K - RELATED PARTY TRANSACTIONS:

The Municipal Utilities had business transactions of \$72,005 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2008.

NOTE L - COMMITMENTS:

The Municipal Utilities has entered into the following contracts to be completed after June 30, 2008:

Description	Contract	Progress Bills	Remaining Contract
Water main extension project	\$ 67,835	\$ -	\$ 67,835
Water plant filter media replacement project	34,777	-	34,777
	<u>\$ 102,612</u>	<u>\$ -</u>	<u>\$ 102,612</u>

NOTE M - SUBSEQUENT EVENTS:

On December 30, 2008 the Municipal Utilities entered into a financing agreement in the amount of \$1,201,641, due April 30, 2009. The agreement is for the purchase of land for well field expansion and future development.

# **REQUIRED SUPPLEMENTARY INFORMATION**

**Municipal Utilities of the City of Remsen**  
**Comparison of Receipts, Disbursements and Changes in Balances -**  
**Actual to Budget (Cash Basis)**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2008**

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
<b>Receipts:</b>				
Use of money and property	\$ 57,863	\$ 46,025	\$ 46,025	\$ 11,838
Charges for services	2,216,692	2,712,350	2,712,350	(495,658)
	<u>2,274,555</u>	<u>2,758,375</u>	<u>2,758,375</u>	<u>(483,820)</u>
<b>Disbursements:</b>				
Business-type activities	2,115,248	2,758,375	2,758,375	643,127
Excess of receipts over disbursements	159,307	-	-	\$ 159,307
Transfers in (out)	(34,414)	-	-	
Excess of receipts and transfers over disbursements	124,893	-	-	
Cash balance - beginning	1,413,406	1,674,902	1,674,902	
Cash balance - ending	<u>\$ 1,538,299</u>	<u>\$ 1,674,902</u>	<u>\$ 1,674,902</u>	

**Municipal Utilities of the City of Remsen**  
**Budgetary Comparison Schedule - Budget to GAAP Reconciliation**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2008**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,274,555	\$ 9,622	\$ 2,284,177
Expenses	(2,115,248)	66,883	(2,048,365)
Other financing sources (uses)	(34,414)	-	(34,414)
Net	124,893	76,505	201,398
Net assets - beginning	1,413,406	3,063,316	4,476,722
Net assets - ending	<u>\$ 1,538,299</u>	<u>\$ 3,139,821</u>	<u>\$ 4,678,120</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Required Supplementary Information -**  
**Budgetary Reporting**  
**June 30, 2008**

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

The Municipal Utilities budget is included in the primary government, City of Remsen's, annual budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functions disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Municipal Utilities disbursements are budgeted under business-type activities. The City did not amend its utilities budget during the year ended June 30, 2008.

# **SUPPLEMENTARY INFORMATION**

**Municipal Utilities of the City of Remsen  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2008**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash	\$ -	\$ 4,411	\$ 4,411
Restricted assets:			
Cash	2,501	31,624	34,125
Total assets	2,501	36,035	38,536
<b>Liabilities:</b>			
Current liabilities:			
Meter deposits	-	31,624	31,624
Total liabilities	-	31,624	31,624
<b>Net assets:</b>			
Restricted for debt service	2,501	-	2,501
Unrestricted	-	4,411	4,411
Total net assets	\$ 2,501	\$ 4,411	\$ 6,912

**Municipal Utilities of the City of Remsen**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2008**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Non-operating revenues (expenses):</b>			
Interest and investment revenue	\$ 112	\$ 843	\$ 955
Interest expense	(9,719)	-	(9,719)
Total non-operating revenue (expenses)	(9,607)	843	(8,764)
Transfers in	9,607	-	9,607
Change in net assets	-	843	843
Total net assets - beginning	2,501	3,568	6,069
Total net assets - ending	\$ 2,501	\$ 4,411	\$ 6,912

**Municipal Utilities of the City of Remsen**  
**Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2008**

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from (paid to) customers	\$ -	\$ 5,388	\$ 5,388
Net cash used for operating activities	<u>-</u>	<u>5,388</u>	<u>5,388</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfers from other funds	9,607	-	9,607
Net cash provided by financing activities	<u>9,607</u>	<u>-</u>	<u>9,607</u>
<b>Cash flows from capital and related financing activities:</b>			
Interest payments under bond obligations	(9,719)	-	(9,719)
Net cash used for capital and related financing activities	<u>(9,719)</u>	<u>-</u>	<u>(9,719)</u>
<b>Cash flows from investing activities:</b>			
Investment income	112	843	955
Net cash provided by financing activities	<u>112</u>	<u>843</u>	<u>955</u>
Net decrease in cash	-	6,231	6,231
Cash and restricted cash - beginning	2,501	29,804	32,305
Cash and restricted cash - ending	<u>\$ 2,501</u>	<u>\$ 36,035</u>	<u>\$ 38,536</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in meter deposits	-	5,388	5,388
Net cash used for operating activities	<u>\$ -</u>	<u>\$ 5,388</u>	<u>\$ 5,388</u>

**Municipal Utilities of the City of Remsen  
Bond and Note Maturities  
June 30, 2008**

<b>Year Ending</b>	<b>Revenue Notes</b>				
	<b>Water Revenue Bonds</b>		<b>Water Capital Loan Notes</b>		<b>Total</b>
	<b>March 1, 1999</b>		<b>December 15, 2001</b>		
<b>June 30,</b>	<b>Interest Rate</b>	<b>Amount</b>	<b>Interest Rates</b>	<b>Amount</b>	
2009	4.90%	\$ 25,000	4.00%	\$ 25,000	\$ 50,000
2010	5.00%	25,000	4.05%	25,000	50,000
2011		-	4.25%	80,000	80,000
		<u>\$ 50,000</u>		<u>\$ 130,000</u>	<u>\$ 180,000</u>

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

2008

2007

RESIDENTIAL SERVICE

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

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

COMMERCIAL SERVICE AND POWER

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

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

ELECTRIC CUSTOMERS

Residential Customers - 696  
Commercial Customers - 214

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

2008

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2007

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RESIDENTIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$7.25  
Next 14,000 gallons - \$3.00 per M gallons  
Over 15,000 gallons - \$2.75 per M gallons  
Minimum charge - \$7.25 per month

First 1,000 gallons - \$7.25  
Next 14,000 gallons - \$3.00 per M gallons  
Over 15,000 gallons - \$2.75 per M gallons  
Minimum charge - \$7.25 per month

COMMERCIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$8.25  
Next 5,000 gallons - \$3.00 per M gallons  
Over 6,000 gallons - \$2.75 per M gallons  
Minimum charge - \$8.25

First 1,000 gallons - \$8.25  
Next 5,000 gallons - \$3.00 per M gallons  
Over 6,000 gallons - \$2.75 per M gallons  
Minimum charge - \$8.25

WATER CUSTOMERS

Residential Customers - 656  
Commercial Customers - 124

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

2008

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2007

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RESIDENTIAL AND COMMERCIAL

All CF                    \$13.342 per MCF  
Minimum charge - \$13.342 per month

All CF                    \$11.8689 per MCF  
Minimum charge - \$11.8689 per month

GAS CUSTOMERS

Residential Customers - 620  
Commercial Customers - 110



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

Member Private Companies Practice Section of AICPA

522 4TH STREET, SUITE 200

SIOUX CITY, IA 51101-1620

(712) 258-5550

FAX (712) 277-6705

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

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

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, a component unit of the City, as of and for the year ended June 30, 2008, which collectively comprise the Municipal Utilities' basic financial statements and have issued our report thereon dated February 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipal Utilities' internal control over financial reporting 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 an opinion on the effectiveness of the Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipal 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.

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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Municipal Utilities' internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting which include I-A-08 through I-C-08.



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 Municipal 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 deficiencies described, we believe items I-A-08 and I-B-08 are material weaknesses.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Municipal Utilities' operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Municipal Utilities' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Municipal 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 Municipal Utilities of the City of Remsen, Iowa, and other parties to whom the Utilities may report and is not intended to be and should not be used by anyone other than these specified parties.

*King Reinsch Prosser & Co LLP*

Sioux City, Iowa  
February 3, 2009

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2008**

Part I: Findings Related to the Financial Statements

**MATERIAL WEAKNESSES:**

**I-A-08      Financial Statement Preparation in Accordance with GAAP:**

*Criteria* - The financial statements are the responsibility of the Municipal Utilities' management. Part of that responsibility is satisfied by either (a) management preparing the financial statements in accordance with GAAP or (b) management demonstrating the necessary GAAP expertise when reviewing and approving financial statements (that the auditor assisted in drafting) and the various schedules and calculations used to prepare such financial statements.

*Condition and Effect* - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Due to the limited number of office employees, preparation of the financial statements is difficult.

*Cause* - Management and those charged with governance made the decision to accept the degree of risk associated with this condition because of cost and other considerations.

*Recommendation* - We recommend the Board continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

*Response* - Although the American Institute of Certified Public Accountants implemented a new standard, there have been no changes in City procedures. A cost benefit analysis reflects that the City continue with the current contractual agreement that the CPA firm draft our financial statements.

**I-B-08      Segregation of Duties:**

*Criteria* - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or fraud. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records.

*Condition and Effect* - In performing our audit, we noted that recordkeeping for the Municipal Utilities is the primary responsibility of one person, with limited review by the Trustees.

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2008  
(Continued)**

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

*Cause* - Due to cost/benefit evaluation, the size of the Municipal Utilities' accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

*Recommendation* - This situation dictates that the Trustees remain actively involved in the financial affairs of the Municipal Utilities to provide oversight and review functions.

*Response* - The Board understands the nature of the weakness and the necessity for the Trustees to provide oversight and review functions. The Trustees will review the Utilities' procedures and implement changes as deemed necessary.

**SIGNIFICANT DEFICIENCIES:**

**I-C-08     Reconciliation of Utility Billings, Collections, and Delinquencies:**

*Criteria* - Utility billings, collections and delinquent account should be reconciled throughout the year to ensure accuracy of accounts receivable subsidiary ledgers.

*Condition and Effect* - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

*Recommendation* - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Trustees or a Trustee-designated independent person should review the reconciliations and monitor delinquencies.

*Response* - With the frequent turnover in the City Clerk position, we have not requested technical support. We will consider contracting for some support with CMS software in preparing reconciliations.

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2008  
(Continued)**

Part II: Other Findings Related to Required Statutory Reporting

II-A-08 *Certified Budget* - We noted no instances of noncompliance.

II-B-08 *Questionable Disbursements* - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 *Travel Expense* - No disbursements of Municipal Utilities money for travel expenses of spouses of Board of Trustees or employees were noted.

II-D-08 *Business Transactions* - The Municipal Utilities had business transactions of \$72,005 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2008.

*Recommendation* - The transaction exceeded \$1,500 and may represent a conflict of interest. We recommend the Trustees consult legal counsel on the disposition of this matter.

*Response* - We will consult legal counsel.

II-E-08 *Bond Coverage* - Surety bond coverage of Board of Trustees and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-08 *Board of Trustees Minutes* - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not. Although minutes of the Board of Trustees proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

*Recommendation* - The Municipal Utilities' should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

*Response* - It is Board policy to approve minutes prior to publication; therefore, we will not be able to comply with Iowa Code.

II-G-08 *Deposits and Investments* - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2008  
(Continued)**

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

II-H-08    *Water Revenue Bonds and Capital Loan Notes* - The Municipal Utilities has complied with the revenue bond and note provisions.

II-I-08    *Notice of Public Hearing for Public Improvements* - The City did not publish a notice of public hearing on the Sanitary Sewer and Water Main Extension Project not less than 4 but not more than 20 days before the date of the hearing as required by Chapters 26.12 and 362.3 of the Code of Iowa.

*Recommendation* - The notice of public hearing for public improvements should be published in the time frame required by the Code of Iowa.

*Conclusion* - Response accepted.