

**Anita Municipal Utilities
Independent Auditors' Report
Basic Financial Statements and
Supplementary Information
Schedule of Findings**

June 30, 2009

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**Anita Municipal Utilities
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Duane Murphy	Chairman	July 2011
Lee Poeppe	Trustee	July 2009
Tim Miller	Trustee	July 2012
Merlin Scarf	Superintendent	Indefinite
Diane Harrison	Secretary/Treasurer	Indefinite



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

December 17, 2009

Independent Auditors' Report

To the Board of Trustees
Anita Municipal Utilities
Anita, IA

We have audited the accompanying financial statements of the business type activities and each major fund of the Anita Municipal Utilities, a component unit of the City of Anita, as of and for the years ended June 30, 2009. These financial statements are the responsibility of the Anita Municipal 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 financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Anita Municipal Utilities is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Anita that is attributable to the transactions of the Utilities.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Anita Municipal Utilities at June 30, 2009, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009, on our consideration of the Anita Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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December 17, 2009
Anita Municipal Utilities
Independent Auditors' Report

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 6, and pages 13 and 14, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statement. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Schroeder & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Anita Municipal Utilities provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utilities' financial statement, which follows.

2009 FINANCIAL HIGHLIGHTS

- The Utilities' total receipts increased 4.2%, or approximately \$45,000, from fiscal 2008 to fiscal 2009.
- The Utilities' total disbursements increased approximately 7.8%, or approximately \$75,900, from fiscal 2008 to fiscal 2009. The increase is due to the purchase of wholesale power.
- The Utilities' total cash basis net assets increased approximately 5.2%, or \$87,400 from June 30, 2008 to June 30, 2009.

USING THIS ANNUAL REPORT

The Anita Municipal Utilities has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Anita Municipal Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Anita Municipal Utilities' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Anita Municipal Utilities' financial statement. The annual report consists of a financial statement and other information, as follows:

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

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Anita Municipal Utilities' receipts and disbursements and whether the Utilities' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

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

Other Supplementary Information provides detailed information about the individual Enterprise Funds. In addition, the Schedule of Indebtedness provides details of the Utilities' debt at June 30, 2009.

FINANCIAL ANALYSIS OF THE ANITA MUNICIPAL UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Anita Municipal Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balances at year end. Over time, readers of the financial statement are able to determine the Anita Municipal Utilities' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, metered electric sales, connect/disconnect fees, rent for space on the water tower and miscellaneous fees. Anita Municipal Utilities also collects sewer fees on behalf of the City of Anita. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2009 and June 30, 2008 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2009	2008
Receipts:		
Use of money and property	50,954	73,543
Charges for service	931,709	857,541
Sewer fees collected for City	80,424	80,237
Miscellaneous	83,035	89,421
Total receipts	1,146,122	1,100,742
Disbursements:		
Plant operation and maintenance	522,482	437,794
Distribution operation, maintenance and generator	190,292	171,823
Accounting and administration	145,318	172,751
Sewer fees remitted to City	80,374	80,237
Payment in lieu of taxes remitted to City	40,802	38,373
Debt service:		
Principal redeemed	50,000	50,000
Interest paid	29,300	31,000
Paying agent fee	150	810
Total disbursements	1,058,718	982,788
Net change in cash basis net assets	87,404	117,954
Cash basis net assets beginning of year	1,684,983	1,567,029
Cash basis net assets end of year	1,772,387	1,684,983

INDIVIDUAL MAJOR FUND ANALYSIS

As the Anita Municipal Utilities completed the year, the total proprietary funds reported a combined fund balance of \$1,772,387; an increase of \$87,404 from last year's total of \$1,684,983. The following are the changes in the fund balances from the prior year:

Water Fund (Proprietary Fund) - Decreased \$53,416 over last year mainly due to the construction of a water well.

Electric Fund (Proprietary Fund) - Increased \$141,833 over last year which is consistent with prior year increases. The Utility will consider decreasing rates.

Meter Deposits Fund (Proprietary Fund) - Decreased \$1,013 over last year.

BUDGETARY HIGHLIGHTS

The Anita Municipal Utilities amended its budget in May 2009 by the City of Anita, which resulted in an increase in disbursements of \$134,994 and no change in receipts. There were a number of amendments, but the major changes were for water well project.

The receipts projected in the amended budget compared to the actual receipts taken in at the end of FY2009 decreased 29,302. The disbursements anticipated in the amended budget compared to the actual disbursements decreased \$73,550. The changes were due to sewer fee collections of \$80,424 and capital projects for \$52,102.

DEBT ADMINISTRATION

At June 30, 2009 the Anita Municipal Utilities had \$510,000 of revenue note debt outstanding. The revenue bonds were issued May 1, 2002.

ECONOMIC FACTORS

The Anita Municipal Utilities assesses its billing rates for electricity on a monthly basis. The billing rate has been broken down into four components: product cost, operation and maintenance, emergency fund and bond payments. Product cost and bond payments are automatically analyzed by the computerized billing system. Operation and maintenance and emergency fund are assessed by the Board of Trustees annually. Based on the results of the component analysis, the energy adjustment rate is recomputed by the billing system to meet current needs. Current economic conditions beyond the control of the Board of Trustees play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection, as well as the purchase and production of electricity.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Anita Municipal 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 Anita Municipal Utilities, 828 Main Street, PO Box 426, Anita, Iowa 50020.

Basic Financial Statement

Exhibit A

Anita Municipal Utilities
 Statement of Cash Receipts, Disbursements and
 Changes in Cash Balances - Cash Basis
 As of and for the year ended June 30, 2009

	Water	Electric	Meter Deposits	Total
Operating receipts:				
Charges for service				
Sale of water	\$ 145,337	-	-	145,337
Sale of electricity	-	786,372	-	786,372
Total charges for service	145,337	786,372		931,709
Miscellaneous				
Rent	3,960	1,478	-	5,438
Refunds and reimbursements	4,758	565	-	5,323
Customer deposits	-	-	4,824	4,824
Sale of property	-	1,153	-	1,153
Sales tax collected	9,598	15,897	-	25,495
Total miscellaneous	18,316	19,093	4,824	42,233
Total operating receipts	163,653	805,465	4,824	973,942
Operating disbursements:				
Business type activities				
Plant operation and maintenance	90,234	432,248		522,482
Distribution operation and maintenance	79,737	110,555		190,292
Administration	60,424	79,207	5,837	145,468
Total operating disbursements	230,395	622,010	5,837	858,242
Excess (deficit) of operating receipts over operating disbursements	(66,742)	183,455	(1,013)	115,700
Non-operating receipts (disbursements)				
Interest on investments	13,326	37,628	-	50,954
Sewer fees collected for City	-	80,424	-	80,424
Sewer fees remitted to City	-	(80,374)	-	(80,374)
Refund of taxes from City	-	40,802	-	40,802
Payment in lieu of taxes remitted to City	-	(40,802)	-	(40,802)
Debt service	-	(79,300)	-	(79,300)
Total non-operating receipts (disbursements)	13,326	(41,622)	-	(28,296)
Change in cash basis net assets	(53,416)	141,833	(1,013)	87,404
Net assets - cash basis beginning of year	(166,409)	1,828,192	23,200	1,684,983
Net assets - cash basis end of year	\$ (219,825)	1,970,025	22,187	1,772,387
Cash Basis Net Assets				
Restricted:				
Debt service	\$ -	136,408	-	136,408
Customer water deposits	-	-	22,187	22,187
Unrestricted	(219,825)	1,833,617	-	1,613,792
Total cash basis net assets	\$ (219,825)	1,970,025	22,187	1,772,387

See accompanying independent auditors' report

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2009

NOTE 1 Summary of Significant Accounting Policies

A. Reporting Entity

The Anita Municipal Utilities is a component unit of the City of Anita, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Utilities is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria. The Utilities provides water and electric utilities for the residents of the City of Anita and collects sewer fees on behalf of the City of Anita.

B. Basis of Presentation

The accounts of the Utilities are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Anita Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Assets and Net Assets

The Utilities have funds set aside for bond principal and interest payments, reserve and improvement funds and customer water deposits which are classified as restricted.

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009 disbursements did not exceed the amount budgeted.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2009**

NOTE 2 Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2009 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 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 Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

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

Interest rate risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

NOTE 3 Revenue Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$820,000 in electric water revenue notes issued in May 2002. Proceeds from the notes provided financing for the construction of a new generator. The notes are payable solely from electric customer net receipts and are payable through 2017. Annual principal and interest payments on the notes required less than 44 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$640,310. For the current year, principal and interest paid and total customer net receipts were \$79,300 and \$183,455, respectively.

Annual debt service requirements to maturity for revenue note indebtedness is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2010	4.90 %	55,000	26,900	81,900
2011	5.00 %	55,000	24,205	79,205
2012	5.10 %	60,000	21,455	81,455
2013	5.20 %	60,000	18,395	78,395
2014	5.30 %	65,000	15,275	80,275
2015-2017	5.40-5.60 %	215,000	24,080	239,080
		<u>\$ 510,000</u>	<u>130,310</u>	<u>640,310</u>

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2009

NOTE 3 Revenue Notes - Continued

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earning of the funds.
- b. Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the note principal and interest payments when due.
- c. At the time of delivery of the notes, \$82,000 shall be deposited into a principal and interest reserve account. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.
- d. At the time of delivery of the notes, \$50,000 shall be deposited into an improvement and extension account. These funds shall be used if there is a deficiency in the sinking account, reserve account or to pay for capital improvements and extensions to the Utility.

The Utilities has complied with these provisions.

NOTE 4 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 4.10% of their annual salary and the Department is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Department's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$10,880, \$9,454, and \$9,639, respectively, equal to the required contributions for each year.

NOTE 5 Compensated Absences

Anita Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick 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 at June 30, 2009 is as follows:

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2009

NOTE 5 Compensated Absences - Continued

Type of Benefit	Amount
Vacation	\$ 7,940
Sick leave	12,016
	\$ 19,956

Sick leave is payable when used or upon retirement or termination. If paid upon retirement or termination, an employee receives one-half of accumulated sick leave hours paid at the current effective hourly rate for that employee.

This liability has been computed based on rates of pay in effect at June 30, 2009.

NOTE 6 Risk Management

The Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986, for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2009 were \$15,763.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2009**

NOTE 6 Risk Management – Continued

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claim shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Utilities also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The Utilities assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 Deficit Fund Balance

The Water Account had a deficit balance of \$219,825 at June 30, 2009. The Utility is considering raising water rates to help eliminate this deficit.

NOTE 8 Commitments

The Municipal Utility entered into a contract for the construction of a new well at the water plant. The Utility also entered into a contract for a new water main at Michigan Avenue. As of June 30, 2009, the following amounts were paid in connection with these projects:

	Contract Amount	Costs Paid To Date	Balance Remaining	Retainage Due
Well Construction	\$ 112,305	\$ 112,305	\$ -	\$ -
Well Engineering fees	17,926	17,926	-	-
Main Construction	25,166	-	25,166	-
Main Engineering fees	4,084	3,859	225	-
Total	\$ 159,481	\$ 134,090	\$ 25,391	\$ -

Required Supplementary Information

Anita Municipal Utilities
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances - Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2009

	<u>Actual</u>	<u>Less Funds Not Required to be Budgeted</u>	<u>Net</u>
Receipts:			
Use of money and property	\$ 50,954	-	50,954
Charges for service	1,012,133	80,424	931,709
Miscellaneous	83,035	-	83,035
Total receipts	<u>1,146,122</u>	<u>80,424</u>	<u>1,065,698</u>
Disbursements:			
Business type activities	<u>1,174,418</u>	<u>80,374</u>	<u>1,094,044</u>
Change in cash basis net assets	(28,296)	50	(28,346)
Cash basis net assets beginning of year	<u>1,684,983</u>	-	<u>1,684,983</u>
Cash basis net assets end of year	<u>\$ 1,656,687</u>	<u>50</u>	<u>1,656,637</u>

See Accompanying Independent Auditors' Report

<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
<u>Original</u>	<u>Final</u>	
63,000	61,500	(10,546)
1,032,000	1,033,500	(101,791)
-	-	83,035
<u>1,095,000</u>	<u>1,095,000</u>	<u>(29,302)</u>
<u>1,032,600</u>	<u>1,167,594</u>	<u>73,550</u>
62,400	(72,594)	44,248
<u>1,684,983</u>	<u>1,684,983</u>	<u>-</u>
<u>1,747,383</u>	<u>1,612,389</u>	<u>44,248</u>

Anita Municipal Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The Anita Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$134,994. The budget amendment is reflected in the final budgeted amounts. The budget amendments were to increase disbursements for the payment in lieu of taxes and refund of that amount that were previously not required to be budgeted. In addition, the budget disbursements were increased for a new water main construction.

During the year ended June 30, 2009, disbursements did not exceed the amended amount budgeted.

**Anita Municipal Utilities
Other Supplementary Information**

**Anita Municipal Utilities
Schedule of Indebtedness
Year Ended June 30, 2009**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes: Electric	May 1, 2002	4.20 - 5.60 %	\$ 820,000

See Accompanying Independent Auditors' Report

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
<u>560,000</u>	<u>-</u>	<u>50,000</u>	<u>510,000</u>	<u>29,300</u>

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Prepared in
Accordance with Government Auditing Standards**



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

December 17, 2009

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Prepared in Accordance with Government Auditing Standards

To the Board of Trustees of the
Anita Municipal Utilities

We have audited the accompanying financial statement of the Anita Municipal Utilities as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Anita Municipal 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 our opinion on the effectiveness of Anita Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Anita 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, including deficiencies we consider to be material weaknesses.

Continued...

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A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Anita Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of Anita Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by Anita Municipal Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings 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 a material misstatement of the financial statements will not be prevented or detected by Anita 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 above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anita Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 *Governmental Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Anita Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Anita Municipal Utilities responses and, accordingly, we express no opinion on them.

Continued...

December 17, 2009
Anita Municipal Utilities
Report on Internal Control

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

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

Schroer & Associates, P.C.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2009**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- I-A-09 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, bank reconciliation and the posting of the cash receipts to the cash receipts journal and customer accounts are all done by the same person.

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

Response – We will consider this.

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

- I-B-09 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

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

Response – Our new utility billing software package will provide the means to do a monthly reconciliation and delinquent list.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2009**

Part II: Other Findings Related to Statutory Reporting:

- II-A-09 Certified Budget – The budget certified by the City of Anita includes an amount budgeted for the Anita Municipal Utilities. Disbursements during the year ended June 30, 2009 did not exceed the amended amount budgeted.
- II-B-09 Entertainment Expense – We noted no disbursements for parties, banquets or entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General opinion dated April 25, 1979.
- II-C-09 Travel Expense - No disbursements of Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.
- II-D-09 Business Transactions - No business transactions between the Utilities and Utilities' officials or employees were noted.
- II-E-09 Bond Coverage - Surety bond coverage of Utilities' officials 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-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- One instance was found where minutes were not published timely.
- Recommendation – The Utility should publish minutes within fifteen days of each meeting.
- Response – We will publish all minutes within fifteen days of each meeting.
- Conclusion – Response accepted.
- II-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-09 Revenue Notes – The Utilities has complied with the electric revenue note resolution requirements for the year ended June 30, 2009.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2009**

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

II-I-09 Excess Balances – The balance in the Electricity Account at June 30, 2009 was in excess of the account disbursements for the year.

Recommendation – The Utilities should consider the necessity of maintaining the substantial balance, and where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We are planning to utilize funds from the Account to pay for possible future improvements and construction.

Conclusion – Response accepted.

II-J-09 Financial Condition – The Water Account had a deficit balance of \$219,825 at June 30, 2009.

Recommendation – The Utilities should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – We are considering a rate increase.

Conclusion – Response accepted.

II-K-09 Statistical Information

 Gallons of water pumped during the year ended June 30, 2009: 36,281,000

 Gallons of water billed during the year ended June 30, 2009: 25,050,724

 Billings based on consumption during the year ended June 30, 2009:

 Water Billings - \$152,204 Water Collections – \$154,102 Variance – 1,898

Comment – for the year ended June 30, 2008 water loss was approximately 34%, and for the year ended June 30, 2009 water loss decreased to 31%.

Recommendation – As this loss represents considerable lost revenues for the Utility, we suggest that the City monitor the situation to determine the causes for the loss.

Response – The excess water loss was caused by a major water main break that occurred during the late fall months in 2008. Due to the weather, we were forced to allow this to continue to leak because of the ground conditions and the customers that were along that line. The break was unable to be repaired until spring. Other causes of water loss include flushing a new water line from Truman to Main Street and flushing fire hydrants. The difference between the billings and collections was due to a change in billing software and manual adjustments in the prior year causing prior year billings to be collected in the current year.

Conclusion – Response accepted.