

Municipal Utilities of the City of Remsen

Remsen, Iowa

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

June 30, 2009

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.
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Independent Auditor's Report

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

We have audited the accompanying financial statements of 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, 2009, 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' 2008 financial statements and, in our report dated February 3, 2009, 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, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, 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 financials but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipal Utilities of the City of Remsen's basic financial statements. 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 L.L.P.

Sioux City, Iowa
January 13, 2010

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, 2009. We encourage readers to consider this information in conjunction with the financial statements, which follow.

2009 Financial Highlights

- The Municipal Utilities' assets exceed liabilities by \$4,577,028 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,678,120.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,936,076 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 \$1,638,451 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 decreased by \$101,092. The decrease was due to an increase in operating expenses for the cost to purchase electricity.

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 \$4,577,028. This is a decrease over last year's net assets of \$101,092. The following table provides a summary of assets, liabilities and net assets at June 30:

	2009	2008	Amount Change	Percentage Change
Current and other assets	\$ 2,158,610	\$ 2,076,660	\$ 81,950	3.95%
Capital assets	3,065,676	2,959,992	105,684	3.57%
Total assets	5,224,286	5,036,652	187,634	3.73%
Long-term liabilities	79,600	129,121	(49,521)	-38.35%
Other liabilities	567,658	229,411	338,247	147.44%
Total liabilities	647,258	358,532	288,726	80.53%
Net assets:				
Invested in capital assets, net of related debt	2,936,076	2,780,871	155,205	5.58%
Restricted for debt service	2,501	2,501	-	0.00%
Unrestricted	1,638,451	1,894,748	(256,297)	-13.53%
Total net assets	\$ 4,577,028	\$ 4,678,120	\$ (101,092)	-2.16%

The Municipal Utilities reported positive balances in net assets for all funds. Net assets decreased due primarily to an increase in operating expenses for the cost to purchase electricity.

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

	2009	2008	Amount Change	Percentage Change
Operating revenues:				
Charges for services	\$ 2,196,890	\$ 2,234,619	\$ (37,729)	-1.69%
Operating expenses:				
Personal services	324,404	300,476	23,928	7.96%
Contractual services	20,049	34,432	(14,383)	-41.77%
Utilities	23,476	21,435	2,041	9.52%
Repairs and maintenance	9,889	7,821	2,068	26.44%
Other supplies and expenses	1,501,430	1,403,537	97,893	6.97%
Insurance claims and expenses	72,947	67,005	5,942	8.87%
Depreciation	215,134	203,461	11,673	5.74%
Total operating expenses	<u>2,167,329</u>	<u>2,038,167</u>	<u>129,162</u>	<u>6.34%</u>
Operating income	<u>29,561</u>	<u>196,452</u>	<u>(166,891)</u>	<u>-84.95%</u>
Non-operating revenues (expenses):				
Interest and investment revenue	27,337	49,558	(22,221)	-44.84%
Interest expense	(7,511)	(9,719)	2,208	-22.72%
Donation to medical clinic	(50,000)	-	(50,000)	N/A
Miscellaneous expenses	(479)	(479)	-	0.00%
Total non-operating revenue	<u>(30,653)</u>	<u>39,360</u>	<u>(70,013)</u>	<u>-177.88%</u>
Income before transfers	(1,092)	235,812	(236,904)	-100.46%
Transfers in	7,491	35,193	(27,702)	-78.71%
Transfers out	(107,491)	(69,607)	(37,884)	54.43%
Changes in net assets	(101,092)	201,398	(302,490)	-150.20%
Total net assets - beginning	<u>4,678,120</u>	<u>4,476,722</u>	<u>201,398</u>	<u>4.50%</u>
Total net assets - ending	<u>\$ 4,577,028</u>	<u>\$ 4,678,120</u>	<u>\$ (101,092)</u>	<u>-2.16%</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. Transfer to the City of Remsen and the donation of \$10,000 to the new medical clinic contributed primarily to the decrease in net assets of \$13,841.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric system. The increase in the cost of purchasing electricity and the donation of \$20,000 to the new medical clinic contributed primarily to the decrease in net assets of \$31,595.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. Transfer of \$40,000 to the City of Remsen and the donation of \$20,000 to the new medical clinic contributed primarily to the decrease in net assets of \$56,552.

Budgetary Highlights

The budget for the fiscal year 2009 was approximately \$2.9 million. This was an increase of approximately \$100,000 over the previous year budget. In 2009, 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, 2009 was \$3,065,676. The total increase in this net investment was 3.57 percent. For additional information about changes in capital assets during the fiscal year, see the notes to the financial statements.

	2009	2008	Amount Change	Percentage Change
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Construction in process	-	7,898	(7,898)	N/A
Depreciable assets:				
Utility systems	2,732,938	2,690,581	42,357	1.57%
Equipment	226,123	143,441	82,682	57.64%
Automotive equipment	17,897	29,354	(11,457)	-39.03%
Total	<u>\$ 3,065,676</u>	<u>\$ 2,959,992</u>	<u>\$ 105,684</u>	<u>3.57%</u>

Debt Administration

At the end of the fiscal year, the Municipal Utilities had total bonded debt outstanding of \$80,000. This debt is supported by pledged revenues generated primarily by the Water Utility Fund (revenue bonds). The Municipal Utilities had an additional debt obligation of \$320,841 outstanding as of June 30, 2009 the proceeds from which were used by the City of Remsen for the purchase of land. The City is obligated to the Municipal Utilities to repay this loan. 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 2010 budget and utility rates that will be charged for various utilities. Amounts available for appropriation in the operating budget for all Municipal Utilities' funds are \$2.6 million. This amount is expected to cover operating expenses.

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, 2009
(With Comparative Totals For June 30, 2008)

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2009</u>	<u>Total 2008</u>
Assets:						
Current assets:						
Cash	\$ -	\$ 1,011,874	\$ 308,525	\$ 5,307	\$ 1,325,706	\$ 1,504,174
Accounts receivable	22,786	77,702	45,483	-	145,971	191,119
Due from City of Remsen	320,841	-	-	-	320,841	-
Accrued interest receivable	25	3,986	1,859	-	5,870	8,437
Inventories	7,329	77,095	8,892	-	93,316	101,681
Prepaid insurance	11,259	19,767	18,562	-	49,588	52,329
Total current assets	<u>362,240</u>	<u>1,190,424</u>	<u>383,321</u>	<u>5,307</u>	<u>1,941,292</u>	<u>1,857,740</u>
Non-current assets:						
Investments	-	178,233	-	-	178,233	184,795
Restricted cash	-	-	-	39,085	39,085	34,125
Capital assets:						
Land and improvements	82,218	-	6,500	-	88,718	88,718
Construction in process	-	-	-	-	-	7,898
Utility system	2,643,545	3,901,222	629,668	-	7,174,435	6,952,911
Equipment	137,222	256,768	204,939	-	598,929	491,737
Less: accumulated depreciation	<u>(1,200,071)</u>	<u>(3,133,041)</u>	<u>(463,294)</u>	<u>-</u>	<u>(4,796,406)</u>	<u>(4,581,272)</u>
Total capital assets	<u>1,662,914</u>	<u>1,024,949</u>	<u>377,813</u>	<u>-</u>	<u>3,065,676</u>	<u>2,959,992</u>
Total non-current assets	<u>1,662,914</u>	<u>1,203,182</u>	<u>377,813</u>	<u>39,085</u>	<u>3,282,994</u>	<u>3,178,912</u>
Total assets	<u>2,025,154</u>	<u>2,393,606</u>	<u>761,134</u>	<u>44,392</u>	<u>5,224,286</u>	<u>5,036,652</u>
Liabilities:						
Current liabilities:						
Accounts payable	21,261	90,083	48,215	-	159,559	146,724
Accrued interest payable	674	-	-	-	674	1,063
Interfund balances	49,631	(49,631)	-	-	-	-
Meter deposits	-	-	-	36,584	36,584	31,624
Bonds and notes payable	370,841	-	-	-	370,841	50,000
Total current liabilities	<u>442,407</u>	<u>40,452</u>	<u>48,215</u>	<u>36,584</u>	<u>567,658</u>	<u>229,411</u>
Non-current liabilities:						
Bonds and notes payable	79,600	-	-	-	79,600	129,121
Total non-current liabilities	<u>79,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,600</u>	<u>129,121</u>
Total liabilities	<u>522,007</u>	<u>40,452</u>	<u>48,215</u>	<u>36,584</u>	<u>647,258</u>	<u>358,532</u>
Net assets:						
Invested in capital assets, net of related debt	1,533,314	1,024,949	377,813	-	2,936,076	2,780,871
Restricted for debt service	-	-	-	2,501	2,501	2,501
Unrestricted	(30,167)	1,328,205	335,106	5,307	1,638,451	1,894,748
Total net assets	<u>\$ 1,503,147</u>	<u>\$ 2,353,154</u>	<u>\$ 712,919</u>	<u>\$ 7,808</u>	<u>\$ 4,577,028</u>	<u>\$ 4,678,120</u>

Municipal Utilities of the City of Remsen
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2009
(With Comparative Totals For June 30, 2008)

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2009</u>	<u>Total 2008</u>
Operating revenues:						
Charges for services	\$ 222,594	\$ 1,022,099	\$ 952,197	\$ -	\$ 2,196,890	\$ 2,234,619
Total operating revenues	<u>222,594</u>	<u>1,022,099</u>	<u>952,197</u>	<u>-</u>	<u>2,196,890</u>	<u>2,234,619</u>
Operating expenses:						
Personal services	46,330	138,979	139,095	-	324,404	300,476
Contractual services	2,930	10,814	6,305	-	20,049	34,432
Utilities	14,461	8,078	937	-	23,476	21,435
Repairs and maintenance	2,386	5,711	1,792	-	9,889	7,821
Other supplies and expenses	35,773	700,540	765,117	-	1,501,430	1,403,537
Insurance claims and expenses	16,396	29,477	27,074	-	72,947	67,005
Depreciation	82,110	112,378	20,646	-	215,134	203,461
Total operating expenses	<u>200,386</u>	<u>1,005,977</u>	<u>960,966</u>	<u>-</u>	<u>2,167,329</u>	<u>2,038,167</u>
Operating income (loss)	<u>22,208</u>	<u>16,122</u>	<u>(8,769)</u>	<u>-</u>	<u>29,561</u>	<u>196,452</u>
Non-operating revenues (expenses):						
Interest and investment revenue	1,921	12,283	12,217	916	27,337	49,558
Interest expense	-	-	-	(7,511)	(7,511)	(9,719)
Donation to medical clinic	(10,000)	(20,000)	(20,000)	-	(50,000)	-
Miscellaneous expenses	(479)	-	-	-	(479)	(479)
Total non-operating revenue (expenses)	<u>(8,558)</u>	<u>(7,717)</u>	<u>(7,783)</u>	<u>(6,595)</u>	<u>(30,653)</u>	<u>39,360</u>
Income (loss) before transfers	13,650	8,405	(16,552)	(6,595)	(1,092)	235,812
Transfers in	-	-	-	7,491	7,491	35,193
Transfers out	(27,491)	(40,000)	(40,000)	-	(107,491)	(69,607)
Change in net assets	(13,841)	(31,595)	(56,552)	896	(101,092)	201,398
Total net assets - beginning	<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>
Total net assets - ending	<u>\$ 1,503,147</u>	<u>\$ 2,353,154</u>	<u>\$ 712,919</u>	<u>\$ 7,808</u>	<u>\$ 4,577,028</u>	<u>\$ 4,678,120</u>

Municipal Utilities of the City of Remsen
Statement of Cash Flows
For the Year Ended June 30, 2009
(With Comparative Totals For June 30, 2008)

	Water Utility	Electric Utility	Gas Utility	Other Enterprise Funds	Total 2009	Total 2008
Cash flows from operating activities:						
Cash received from (paid to) customers	\$ 222,529	\$ 1,026,877	\$ 992,632	\$ 4,960	\$ 2,246,998	\$ 2,216,692
Cash payments to suppliers for goods and services	(78,990)	(713,138)	(814,800)	-	(1,606,928)	(1,548,415)
Cash payments to employees	(46,330)	(138,979)	(139,095)	-	(324,404)	(300,476)
Net cash provided (used) by operating activities	<u>97,209</u>	<u>174,760</u>	<u>38,737</u>	<u>4,960</u>	<u>315,666</u>	<u>367,801</u>
Cash flows from non-capital financing activities:						
Receipts under interfund loans	49,631	-	-	-	49,631	-
Payments under interfund loans	-	(49,631)	-	-	(49,631)	-
Payments to other entities	(10,000)	(20,000)	(20,000)	-	(50,000)	-
Transfers to other funds	(7,491)	-	-	-	(7,491)	(9,607)
Transfers from other funds	-	-	-	7,491	7,491	9,607
Transfers from City of Remsen	-	-	-	-	-	25,586
Transfers to City of Remsen	(20,000)	(40,000)	(40,000)	-	(100,000)	(60,000)
Net cash provided (used) by non-capital financing activities	<u>12,140</u>	<u>(109,631)</u>	<u>(60,000)</u>	<u>7,491</u>	<u>(150,000)</u>	<u>(34,414)</u>
Cash flows from capital and related financing activities:						
Principal payments under bond obligations	(50,000)	-	-	-	(50,000)	(50,000)
Interest payments under bond obligations	(389)	-	-	(7,511)	(7,900)	(10,100)
Purchases of capital assets	(161,513)	(113,181)	(43,046)	-	(317,740)	(206,257)
Net cash provided (used) by capital and related financing activities	<u>(211,902)</u>	<u>(113,181)</u>	<u>(43,046)</u>	<u>(7,511)</u>	<u>(375,640)</u>	<u>(266,357)</u>
Cash flows from investing activities:						
Investment income	1,937	13,873	13,178	916	29,904	52,530
Investments in MBMECA	-	6,562	-	-	6,562	5,333
Net cash provided (used) by investing activities	<u>1,937</u>	<u>20,435</u>	<u>13,178</u>	<u>916</u>	<u>36,466</u>	<u>57,863</u>
Net increase (decrease) in cash	(100,616)	(27,617)	(51,131)	5,856	(173,508)	124,893
Cash and restricted cash - beginning	100,616	1,039,491	359,656	38,536	1,538,299	1,413,406
Cash and restricted cash - ending	<u>\$ -</u>	<u>\$ 1,011,874</u>	<u>\$ 308,525</u>	<u>\$ 44,392</u>	<u>\$ 1,364,791</u>	<u>\$ 1,538,299</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 22,208	\$ 16,122	\$ (8,769)	\$ -	\$ 29,561	\$ 196,452
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	82,110	112,378	20,646	-	215,134	203,461
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(65)	4,778	40,435	-	45,148	(23,315)
(Increase) decrease in inventories	-	8,254	111	-	8,365	(20,242)
(Increase) decrease in prepaid insurance	548	1,290	903	-	2,741	(5,000)
Increase (decrease) in accounts payable	(7,592)	31,938	(14,589)	-	9,757	11,057
Increase (decrease) in meter deposits	-	-	-	4,960	4,960	5,388
Net cash provided (used) by operating activities	<u>\$ 97,209</u>	<u>\$ 174,760</u>	<u>\$ 38,737</u>	<u>\$ 4,960</u>	<u>\$ 315,666</u>	<u>\$ 367,801</u>
Supplemental schedule of noncash investing, capital, and financing transactions:						
Capital assets purchased by short-term debt (accounts payable)	\$ 16,791	\$ 14,564	\$ 6,436	\$ -	\$ 37,791	\$ 34,713
City's direct financing of capital assets with capital loan notes signed by the Municipal Utilities	<u>\$ 1,201,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,201,641</u>	<u>\$ -</u>
City's direct payment on capital loan notes	<u>\$ 880,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 880,800</u>	<u>\$ -</u>
Capital loan notes refinanced	<u>\$ 320,841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,841</u>	<u>\$ -</u>

Municipal Utilities of the City of Remsen
Notes to Financial Statements
June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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, 2009

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.

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.

Municipal Utilities of the City of Remsen
Notes to Financial Statements
June 30, 2009

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

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, 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 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, 2009, the Municipal Utilities held no cash equivalents.

Cash is composed accordingly as of June 30, 2009:

Checking accounts	\$ 586,791
Certificates of deposit	778,000
Total	\$ 1,364,791

NOTE C - DUE FROM CITY OF REMSEN:

On December 30, 2008, the Municipal Utilities obtained a \$1,201,641 short term loan which was subsequently loaned to the City of Remsen for the purchase of land. The City of Remsen has repaid \$880,800, leaving a remaining balance of \$320,841 at June 30, 2009. Subsequent to year end, this loan was paid in full by the City of Remsen.

NOTE D - 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 Municipal Utilities' share of the fund decreased by \$6,562 during the current fiscal year to a June 30, 2009 balance of \$178,233.

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, 2009

NOTE E - RESTRICTED ASSETS:

At June 30, 2009, \$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 \$36,584 of customer utility deposits at June 30, 2009. 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 F - CAPITAL ASSETS:

A summary of changes in the capital assets for the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,718	\$ -	\$ -	\$ 88,718
Construction in process	7,898	111,882	119,780	-
Total capital assets not being depreciated	<u>96,616</u>	<u>111,882</u>	<u>119,780</u>	<u>88,718</u>
Capital assets being depreciated:				
Water utility system	2,518,446	125,098	-	2,643,544
Electric utility system	3,808,594	92,628	-	3,901,222
Gas utility system	625,871	3,798	-	629,669
Equipment	322,094	107,192	-	429,286
Automotive equipment	169,643	-	-	169,643
Total capital assets being depreciated	<u>7,444,648</u>	<u>328,716</u>	<u>-</u>	<u>7,773,364</u>
Less accumulated depreciation:				
Water utility system	(1,079,776)	(77,494)	-	(1,157,270)
Electric utility system	(2,871,024)	(87,895)	-	(2,958,919)
Gas utility system	(311,530)	(13,778)	-	(325,308)
Equipment	(178,653)	(24,510)	-	(203,163)
Automotive equipment	(140,289)	(11,457)	-	(151,746)
Total accumulated depreciation	<u>(4,581,272)</u>	<u>(215,134)</u>	<u>-</u>	<u>(4,796,406)</u>
Total net capital assets being depreciated	<u>2,863,376</u>	<u>113,582</u>	<u>-</u>	<u>2,976,958</u>
Total business-type activities capital assets, net	<u>\$ 2,959,992</u>	<u>\$ 225,464</u>	<u>\$ 119,780</u>	<u>\$ 3,065,676</u>

Depreciation expense of \$215,134 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, 2009

NOTE G - INTERFUND BALANCES:

Interfund balances at June 30, 2009 consisted of \$49,631 due by the Water Utility Fund to the Electric Utility Fund. The balance resulted from the Water Utility Fund overdrawing its share of an internal pooled checking account.

NOTE H - BONDS AND NOTES PAYABLE:

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. For the year ended June 30, 2009, principal and interest paid and total customer net earnings (losses) were \$27,475 and (\$101,092), respectively. The total principal and interest remaining to be paid on the bonds is \$26,250.

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 of 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 approximately 37 percent of net revenues. For the year ended June 30, 2009, principal and interest paid and total customer net revenues were \$30,425 and \$222,594, respectively. The total principal and interest remaining to be paid on the notes is \$112,813.

Water Revenue Capital Loan Notes - On December 30, 2008, the Municipal Utilities obtained a \$1,201,641 short term loan which was subsequently loaned to the City of Remsen for the purchase of land. Interest was stated at 4 percent, for which the City is responsible, and the loan matured on April 30, 2009. The City of Remsen repaid \$880,800 in principal and paid the interest due at that time. The remaining short term loan balance of \$320,841 was refinanced into another short term note. This note bears interest at the per annum rate of 4 percent and matures on August 1, 2009. Subsequent to year end, this short term note has been paid in full by the City of Remsen.

Municipal Utilities of the City of Remsen
Notes to Financial Statements
June 30, 2009

NOTE H - BONDS AND NOTES PAYABLE (CONTINUED):

During the year ended June 30, 2009 the following changes occurred in bonds and other debt:

	Balance			Balance June 30, 2009	Due Within One Year
	June 30, 2008	Additions	Retirements		
Water revenue bonds	\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
Water capital loan notes	130,000	-	25,000	105,000	25,000
Land notes	-	1,201,641	880,800	320,841	320,841
	180,000	1,201,641	930,800	450,841	370,841
Less: unamortized discount	879	-	479	400	-
	<u>\$ 179,121</u>	<u>\$ 1,201,641</u>	<u>\$ 930,321</u>	<u>\$ 450,441</u>	<u>\$ 370,841</u>

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

Year Ending June 30,	Water Revenue Bonds		Water Capital Loan Notes		Land Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 25,000	\$ 1,250	\$ 25,000	\$ 4,413	\$ 320,841	\$ -	\$ 370,841	\$ 5,663
2011	-	-	80,000	3,400	-	-	80,000	3,400
	<u>\$ 25,000</u>	<u>\$ 1,250</u>	<u>\$ 105,000</u>	<u>\$ 7,813</u>	<u>\$ 320,841</u>	<u>\$ -</u>	<u>\$ 450,841</u>	<u>\$ 9,063</u>

NOTE I - 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 4.10 percent of their annual salary and the Utilities are required to contribute 6.35 percent of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$13,276, \$11,976 and \$10,510, respectively, equal to the required contribution for each year.

Municipal Utilities of the City of Remsen
Notes to Financial Statements
June 30, 2009

NOTE J - COMPENSATED ABSENCES:

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009 is considered immaterial.

NOTE K - TRANSFERS:

During the year ended June 30, 2009, transfers totaling \$7,491 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, Electric Utility Fund, and Gas Utility Fund made transfers of \$20,000, \$40,000, and \$40,000, respectively, to the City of Remsen for the purchase of land during the year ended June 30, 2009.

NOTE L - 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 M - RELATED PARTY TRANSACTIONS:

The Municipal Utilities had business transactions of \$70,207 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2009.

NOTE N - COMMITMENTS:

The Municipal Utilities has entered into a contract for a natural gas line for \$17,800 to be completed after June 30, 2009.

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, 2009

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 36,466	\$ 56,775	\$ 56,775	\$ (20,309)
Charges for services	2,246,998	2,805,850	2,805,850	(558,852)
	<u>2,283,464</u>	<u>2,862,625</u>	<u>2,862,625</u>	<u>(579,161)</u>
Disbursements:				
Business-type activities	2,356,972	2,862,625	2,862,625	505,653
Deficiency of receipts under disbursements	(73,508)	-	-	<u>\$ (73,508)</u>
Other financing sources (uses):				
Transfers out	(100,000)	-	-	
Deficiency of receipts under disbursements and transfers	(173,508)	-	-	
Cash balance - beginning	<u>1,538,299</u>	<u>1,674,966</u>	<u>1,674,966</u>	
Cash balance - ending	<u>\$ 1,364,791</u>	<u>\$ 1,674,966</u>	<u>\$ 1,674,966</u>	

Municipal Utilities of the City of Remsen
Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information
For the Year Ended June 30, 2009

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,283,464	\$ (59,237)	\$ 2,224,227
Expenses	(2,356,972)	131,653	(2,225,319)
Other financing sources (uses)	(100,000)	-	(100,000)
Net	<u>(173,508)</u>	<u>72,416</u>	<u>(101,092)</u>
Net assets - beginning	<u>1,538,299</u>	<u>3,139,821</u>	<u>4,678,120</u>
Net assets - ending	<u><u>\$ 1,364,791</u></u>	<u><u>\$ 3,212,237</u></u>	<u><u>\$ 4,577,028</u></u>

Municipal Utilities of the City of Remsen
Notes to Required Supplementary Information -
Budgetary Reporting
June 30, 2009

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, 2009.

SUPPLEMENTARY INFORMATION

Municipal Utilities of the City of Remsen
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2009

	Water Reserve	Meter Deposits	Total
Assets:			
Current assets:			
Cash	\$ -	\$ 5,307	\$ 5,307
Restricted assets:			
Cash	2,501	36,584	39,085
Total assets	2,501	41,891	44,392
Liabilities:			
Current liabilities:			
Meter deposits	-	36,584	36,584
Total liabilities	-	36,584	36,584
Net assets:			
Restricted for debt service	2,501	-	2,501
Unrestricted	-	5,307	5,307
Total net assets	\$ 2,501	\$ 5,307	\$ 7,808

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, 2009

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
Non-operating revenues (expenses):			
Interest and investment revenue	\$ 20	\$ 896	\$ 916
Interest expense	(7,511)	-	(7,511)
Total non-operating revenue (expenses)	<u>(7,491)</u>	<u>896</u>	<u>(6,595)</u>
Transfers in	<u>7,491</u>	<u>-</u>	<u>7,491</u>
Change in net assets	-	896	896
Total net assets - beginning	<u>2,501</u>	<u>4,411</u>	<u>6,912</u>
Total net assets - ending	<u><u>\$ 2,501</u></u>	<u><u>\$ 5,307</u></u>	<u><u>\$ 7,808</u></u>

**Municipal Utilities of the City of Remsen
Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2009**

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from (paid to) customers	\$ -	\$ 4,960	\$ 4,960
Net cash used for operating activities	<u>-</u>	<u>4,960</u>	<u>4,960</u>
Cash flows from non-capital financing activities:			
Transfers from other funds	8,269	-	8,269
Net cash provided by financing activities	<u>8,269</u>	<u>-</u>	<u>8,269</u>
Cash flows from capital and related financing activities:			
Interest payments under bond obligations	(8,289)	-	(8,289)
Net cash used for capital and related financing activities	<u>(8,289)</u>	<u>-</u>	<u>(8,289)</u>
Cash flows from investing activities:			
Investment income	20	896	916
Net cash provided by financing activities	<u>20</u>	<u>896</u>	<u>916</u>
Net decrease in cash	-	5,856	5,856
Cash and restricted cash - beginning	2,501	36,035	38,536
Cash and restricted cash - ending	<u>\$ 2,501</u>	<u>\$ 41,891</u>	<u>\$ 44,392</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in meter deposits	-	4,960	4,960
Net cash used for operating activities	<u>\$ -</u>	<u>\$ 4,960</u>	<u>\$ 4,960</u>

**Municipal Utilities of the City of Remsen
Bond and Note Maturities
June 30, 2009**

Year Ending <u>June 30,</u>	Revenue Notes				Notes Payable		Total
	Water Revenue Bonds March 1, 1999		Water Capital Loan Notes December 15, 2001		Land Note June 30, 2009		
	Interest Rate	Amount	Interest Rates	Amount	Interest Rate	Amount	
2010	5.00%	\$ 25,000	4.05%	\$ 25,000	4.00%	\$ 320,841	\$ 370,841
2011		-	4.25%	80,000		-	80,000
		<u>\$ 25,000</u>		<u>\$ 105,000</u>		<u>\$ 320,841</u>	<u>\$ 450,841</u>

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

2009

2008

RESIDENTIAL SERVICE

First 50 KWH -	\$0.090 per KWH	First 50 KWH -	\$0.085 per KWH
Next 150 KWH -	\$0.075 per KWH	Next 150 KWH -	\$0.070 per KWH
Over 200 KWH -	\$0.065 per KWH	Over 200 KWH -	\$0.060 per KWH
Minimum charge -	\$4.50 per month	Minimum charge -	\$4.25 per month

COMMERCIAL SERVICE AND POWER

First 100 KWH -	\$0.090 per KWH	First 100 KWH -	\$0.085 per KWH
Next 400 KWH -	\$0.075 per KWH	Next 400 KWH -	\$0.070 per KWH
Next 500 KWH -	\$0.070 per KWH	Next 500 KWH -	\$0.065 per KWH
Over 1,000 KWH -	\$0.065 per KWH	Over 1,000 KWH -	\$0.060 per KWH
Minimum charge -	\$9.00 per month	Minimum charge -	\$8.50 per month
Demand charge -	\$3.00 per KWH plus \$0.060 per KWH used	Demand charge -	\$3.00 per KWH plus \$0.055 per KWH used
Minimum demand charge -	\$4.25 per month	Minimum demand charge -	\$4.00 per month

ELECTRIC CUSTOMERS

Residential Customers - 694
Commercial Customers - 221

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

2009

2008

RESIDENTIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$7.50
Next 14,000 gallons - \$3.25 per M gallons
Over 15,000 gallons - \$3.00 per M gallons
Minimum charge - \$7.50 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 - \$8.50
Next 5,000 gallons - \$3.25 per M gallons
Over 6,000 gallons - \$3.00 per M gallons
Minimum charge - \$8.50

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 - 657
Commercial Customers - 126

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

2009

2008

RESIDENTIAL AND COMMERCIAL

All CF \$7.23 per MCF
Minimum charge - \$7.23 per month

All CF \$13.34 per MCF
Minimum charge - \$13.34 per month

GAS CUSTOMERS

Residential Customers - 616

Commercial Customers - 110



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

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

We have audited the financial statements of 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, 2009, which collectively comprise the Municipal Utilities' basic financial statements and have issued our report thereon dated January 13, 2010. 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-09 through I-C-09.



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 disclose 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-09 and I-B-09 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, 2009 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.

Sioux City, Iowa
January 13, 2010

**Municipal Utilities of the City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2009**

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

I-A-09 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-09 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, 2009
(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-09 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 account 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 - 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, 2009
(Continued)**

Part II: Other Findings Related to Required Statutory Reporting

II-A-09 *Certified Budget* - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

II-B-09 *Questionable Disbursements* - No disbursements were noted that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 *Travel Expense* - No disbursements of City money for travel expenses of spouses of Board of Trustees or employees were noted.

II-D-09 *Business Transactions* - The Municipal Utilities had business transactions of \$70,207 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2009.

Recommendation - The transaction with Matgen Insurance 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-09 *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.

**Municipal Utilities of the City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2009
(Continued)**

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

II-F-09 *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-09 *Deposits and Investments* - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-09 *Water Revenue Bonds and Capital Loan Notes* - The Municipal Utilities has complied with the revenue bond and note provisions.