

**OGDEN MUNICIPAL UTILITIES**

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

**June 30, 2010**

# OGDEN MUNICIPAL UTILITIES

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## OGDEN MUNICIPAL UTILITIES

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Darrell Heck	Chairman	January 1, 2016
Donna Sloan	Trustee	January 1, 2012
Richard Smith	Trustee	January 1, 2014
Daniel Wilson	Superintendent	Indefinite
Kathy Weber	Utility Clerk	Indefinite
Linda Sunstrom	Utility Clerk	Indefinite

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Independent Auditor's Report

Board of Trustees  
Ogden Municipal Utilities

We have audited the accompanying financial statement of the Ogden Municipal Utilities, Ogden, Iowa, as of and for the year ended June 30, 2010. This financial statement is the responsibility of the Utilities' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to the 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 statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash basis financial position of the Ogden Municipal Utilities as of June 30, 2010, and the changes in its 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 January 20, 2011 on our consideration of the Ogden Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 read in conjunction with this report in considering the results of our audit.



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Management's Discussion and Analysis and budgetary comparison information on pages 6 through 8 and on pages 16 through 17 are not required parts of the basic financial statement, 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 made for the purpose of forming an opinion on the financial statement taken as a whole. The supplementary information included in Schedules 1, 2 and 3 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

*Houston & Seeman, P.C.*

Houston & Seeman, P.C.  
Boone, Iowa

January 20, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Ogden Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- Charges for service receipts in the Utilities' Electric Department increased approximately 5% or \$74,275 from fiscal 2009. Charges for service receipts in the Utilities' Water Department also decreased \$17,299 or approximately 5% from fiscal 2009.
- Operating disbursements in the Electric Department increased approximately 15% or \$193,766 in fiscal 2010. Disbursements in the Water Department increased approximately 6% or \$14,329 in fiscal 2010.
- The Utilities' total cash basis net assets decreased approximately 6% or \$80,214 from June 30, 2009 to June 30, 2010.

### **USING THIS ANNUAL REPORT**

The Utilities have 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 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 Utilities cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Utilities' financial statements. 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 Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Ogden 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.

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

Required Supplementary Information further explains and supports the financial statements 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, 2010.

## FINANCIAL ANALYSIS OF THE OGDEN 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 Ogden 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 Utilities' financial position by analyzing the increase and decrease in cash basis net assets. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2010 and June 30, 2009 are presented below:

	<b>Changes in Cash Basis Net Assets</b>	
	Year Ended June 30,	
	<u>2010</u>	<u>2009</u>
Receipts:		
Operating receipts:		
Charges for services:		
Electric	\$ 1,562,224	\$ 1,487,949
Water	306,057	323,356
Miscellaneous	92,453	93,045
Non-operating receipts:		
Interest on investments	<u>33,255</u>	<u>30,688</u>
Total receipts	<u>1,993,989</u>	<u>1,935,038</u>
Disbursements:		
Electric	1,824,951	1,571,450
Water	<u>249,252</u>	<u>240,807</u>
Total disbursements	<u>2,074,203</u>	<u>1,812,257</u>
Change in cash basis net assets	(80,214)	122,781
Cash basis net assets beginning of year	<u>1,321,838</u>	<u>1,199,057</u>
Cash basis net assets end of year	<u>\$ 1,241,624</u>	<u>\$ 1,321,838</u>

A portion of the Utilities' net assets (40%) are restricted funds for the repayment of the Electric Capital Loan Notes issued in 2001 and 2005 and for customer deposits. The remaining net assets (60%) are unrestricted assets available for use in the routine operations of the plant, distribution and administrative areas of the Utilities and for capital improvements.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Utilities did not amend its' original budget.

### **DEBT ADMINISTRATION**

At June 30, 2010, the Utilities' had approximately \$1,050,000 in revenue notes compared to \$1,185,000 last year.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

At the time these financial statements were prepared and audited, the Utilities were aware of several existing conditions that may affect its financial health in the future:

- Ogden Municipal Utilities' appointed officials and management considered many factors when setting the fiscal year 2010 electric and water rates and fees that will be charged. These rate structures are reviewed approximately every five years and monitored annually to adequately fund all requirements and system improvements.
- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of inputs to produce quality water and affordable electricity for customers.

### **CONTACTING THE UTILITIES FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers, the public and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Daniel L. Wilson, Superintendent, Ogden Municipal Utilities, Ogden, Iowa.

## **Financial Statement**

**OGDEN MUNICIPAL UTILITIES**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets**  
**As of and for the year ended June 30, 2010**

Operating receipts:	
Charges for service	\$ 1,868,281
Miscellaneous	92,453
Total operating receipts	<u>1,960,734</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	1,079,009
Distribution operation and maintenance	125,173
Employee expense	472,188
Accounting and collection	21,220
Administration	47,077
Customer refunds	12,930
Total operating disbursements	<u>1,757,597</u>
Excess of operating receipts over operating disbursements	<u>203,137</u>
Non-operating receipts (disbursements):	
Interest on investments	33,255
Debt service	(194,200)
Capital outlay	(122,406)
Total non-operating receipts (disbursements)	<u>(283,351)</u>
Change in cash basis net assets	(80,214)
Cash basis net assets beginning of year	<u>1,321,838</u>
Cash basis net assets end of year	<u><u>\$ 1,241,624</u></u>
<b>Cash Basis Net Assets</b>	
Restricted for:	
Bond principal and interest payments	\$ 472,553
Customer deposits	27,626
Total restricted net assets	<u>500,179</u>
Unrestricted	741,445
Total cash basis net assets	<u><u>\$ 1,241,624</u></u>

See notes to financial statement.

**OGDEN MUNICIPAL UTILITIES**  
**Notes to the Financial Statements**

**1. Summary of Significant Accounting Policies**

A. Reporting Entity

Ogden Municipal Utilities is a component unit of the City of Ogden, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. 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 provide water and electric utilities for the residents of the City of Ogden and collects sewer fees on behalf of the City of Ogden.

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.

C. Basis of Accounting

Ogden 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 statements do not present the financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States.

D. Restricted Assets and Net Assets

Funds set aside for bond principal and interest payments and customer meter deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**2. Cash and Pooled Investments**

The Utilities' deposits in banks at June 30, 2010, 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.

**OGDEN MUNICIPAL UTILITIES**  
**Notes to the Financial Statements**

**2. Cash and Pooled Investments (Continued)**

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

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

**3. Electric Revenue Capital Loan Notes**

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 145,000	\$ 49,670	\$ 194,670
2012	150,000	42,653	192,653
2013	160,000	35,138	195,138
2014	150,000	27,446	177,446
2015	140,000	19,995	159,995
2016	150,000	12,345	162,345
2017	<u>155,000</u>	<u>4,185</u>	<u>159,185</u>
	<u>\$ 1,050,000</u>	<u>\$ 191,432</u>	<u>\$ 1,241,432</u>

The Utilities have pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,260,000 of electric revenue capital loan notes issued in November 2001 and \$180,000 of electric revenue capital loan notes issued in October 2005. Proceeds from the notes provided financing for the constructing improvements and extensions to the electric utility. The notes are payable solely from electric customer net receipts and are payable through 2017. Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,241,432. For the current year, principal and interest paid and total customer net receipts were \$193,800 and \$116,007, respectively.

**OGDEN MUNICIPAL UTILITIES**  
**Notes to the Financial Statements**

**3. Electric Revenue Capital Loan Notes (Continued)**

As part of the Electric Revenue Loan Notes agreement the following pertinent requirements were made effective for the Electric Revenue Fund:

- 1) A Sinking Fund must be established and an amount equal to 1/12 of principal and interest due at the next installment shall be deposited to the Sinking Fund.
- 2) A Reserve Account must be established and maintained at \$170,000. This account may be used if the Sinking Fund does not have adequate funds to pay principal and interest.
- 3) An Improvement Fund must be established and maintained at \$100,000. The fund may be used for extraordinary maintenance on the electrical systems or may be used to pay principal and interest. The Fund must be replenished with \$2,700 monthly payments.

Funds can only be deposited in financial institutions which are members of the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2010 the note requirements have been satisfied.

**4. 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 4.30% of their annual salary and the Utilities are required to contribute 6.65% of annual payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$21,964, \$20,509, and \$18,799, respectively, equal to the required contributions for each year.

**OGDEN MUNICIPAL UTILITIES**  
**Notes to the Financial Statements**

**5. Compensated Absences**

Utilities' employees accumulate a limited amount of earned but unused vacation 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 termination payments payable to employees was \$16,600 at June 30, 2010. This liability has been computed based on rates of pay in effect at June 30, 2010.

**6. Risk Management**

The Utilities are exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance except for the possible damage to the Utilities' distribution system which is currently uninsured. Settled claims from these risks, except for the Utilities' distribution system, have not exceeded commercial insurance coverage in any of the past three fiscal years.

**7. Related Party Transaction**

As stated in Note 1, Ogden Municipal Utilities is a component unit of the City of Ogden, Iowa. The Utilities receive a processing fee of \$2,250 on a quarterly basis for the computation and collection of the sewer rentals for the City of Ogden.

**8. Commitments and Contingencies**

The Utilities provide their employees and their dependents with comprehensive health care coverage. A portion of the coverage is self-funded by the Utilities. Under the insurance policy terms with the employees, the Utilities' self-funded liability would be limited each plan year to an aggregate liability limit of \$6,000 for single coverage and \$12,000 for family coverage. For this purpose, the plan year operates from January 1 through December 31.

As stated earlier, the Utilities do not have insurance coverage for possible catastrophic damage to the Utilities' distribution system. The Utilities have determined the insurance coverage premium to be cost prohibitive. The probability and amount of loss, if any, is undeterminable.

**9. Economic Dependency**

During the year ending June 30, 2010, the Utilities purchased approximately its entire electric power source from one supplier.

## **Required Supplementary Information**

**OGDEN MUNICIPAL UTILITIES**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements, and Changes in Balances -**  
**Budget and Actual (Cash Basis)**  
**Required Supplementary Information**  
**Year ended June 30, 2010**

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original & Final	Final to Actual Variance
Receipts:			
Use of money and property	33,255	-	33,255
Charges for service	1,868,281	2,825,000	(956,719)
Miscellaneous	92,453	-	92,453
Total receipts	<u>1,993,989</u>	<u>2,825,000</u>	<u>(831,011)</u>
Disbursements:			
Business type activities	<u>2,074,203</u>	<u>2,825,000</u>	<u>750,797</u>
Change in cash basis net assets	(80,214)	-	(80,214)
Cash basis net assets beginning of year	<u>1,321,838</u>	-	<u>1,321,838</u>
Cash basis net assets end of year	<u>\$ 1,241,624</u>	<u>\$ -</u>	<u>\$ 1,241,624</u>

See accompanying independent auditor's report.

## **OGDEN MUNICIPAL UTILITIES**

### Notes to Required Supplementary Information – Budget Reporting

June 30, 2010

The Utilities prepares a budget and submits it to the City Council of the City of Ogden, Iowa. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing. 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. There were no budget amendments for the Utilities during the year ended June 30, 2010.

During the year ended June 30, 2010, disbursements did not exceed the amount budgeted.

## **Other Supplementary Information**

**OGDEN MUNICIPAL UTILITIES**  
**Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets**  
**Enterprise Funds**  
**Year ended June 30, 2010**

	Electric	Water	Project Share	Total
Operating receipts:				
Charges for services	\$ 1,562,224	\$ 306,057	\$ -	\$ 1,868,281
Miscellaneous	62,866	29,447	140	92,453
Total operating receipts	<u>1,625,090</u>	<u>335,504</u>	<u>140</u>	<u>1,960,734</u>
Operating disbursements:				
Business type activities:				
Plant operation and maintenance	1,001,979	77,030	-	1,079,009
Distribution operation and maintenance	86,080	39,093	-	125,173
Employee expense	357,146	115,042	-	472,188
Accounting and collection	11,415	9,805	-	21,220
Administration	39,533	7,544	-	47,077
Customer refunds	12,930	-	-	12,930
Total operating disbursements	<u>1,509,083</u>	<u>248,514</u>	<u>-</u>	<u>1,757,597</u>
Excess of operating receipts over operating disbursements	<u>116,007</u>	<u>86,990</u>	<u>140</u>	<u>203,137</u>
Non-operating receipts (disbursements):				
Interest on investments	22,540	10,715	-	33,255
Debt service				
Principal redeemed	(135,000)	-	-	(135,000)
Interest paid	(58,800)	-	-	(58,800)
Service fees	(400)	-	-	(400)
Capital outlay	(121,668)	(738)	-	(122,406)
Total non-operating receipts (disbursements)	<u>(293,328)</u>	<u>9,977</u>	<u>-</u>	<u>(283,351)</u>
Change in cash basis net assets	(177,321)	96,967	140	(80,214)
Cash basis net assets beginning of year	<u>680,100</u>	<u>641,256</u>	<u>482</u>	<u>1,321,838</u>
Cash basis net assets end of year	<u>\$ 502,779</u>	<u>\$ 738,223</u>	<u>\$ 622</u>	<u>\$ 1,241,624</u>

See accompanying independent auditor's report.

**OGDEN MUNICIPAL UTILITIES**  
**Schedule of Indebtedness**  
**Year ended June 30, 2010**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Notes:									
Electric Capital Loan Notes	11/01/01	3.40-5.40%	\$ 1,260,000	1,055,000	-	110,000	945,000	51,500	-
Electric Capital Loan Note	10/25/05	4.00%	\$ 180,000	130,000	-	25,000	105,000	7,300	-
Total Revenue Notes			\$ 1,440,000	\$ 1,185,000	\$ -	\$ 135,000	\$ 1,050,000	\$ 58,800	\$ -

See accompanying independent auditor's report.

**OGDEN MUNICIPAL UTILITIES**  
**Note Maturities**  
**June 30, 2010**

Year Ending June 30,	Revenue Notes					
	Electric Capital Loan Notes Issued November 1, 2001			Electric Capital Loan Notes Issued October 25, 2005		
	Interest		Amount	Interest		Total
	Rates	Amount		Rates	Amount	
2011	4.90%	\$ 115,000	4.00%	\$ 30,000	\$ 145,000	
2012	5.00%	120,000	4.00%	30,000	150,000	
2013	5.10%	130,000	4.00%	30,000	160,000	
2014	5.15%	135,000	4.00%	15,000	150,000	
2015	5.25%	140,000			140,000	
2016	5.30%	150,000			150,000	
2017	5.40%	155,000			155,000	
<b>Total</b>		<b>\$ 945,000</b>		<b>\$ 105,000</b>	<b>\$ 1,050,000</b>	

See accompanying independent auditor's report.

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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

Board of Trustees  
Ogden Municipal Utilities

We have audited the financial statement of the Ogden Municipal Utilities, Ogden, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 20, 2011. 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 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 Ogden 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 the Ogden Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ogden 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 and, therefore, there can no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) and (C) to be significant deficiencies.



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## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Ogden Municipal Utilities' responses to the 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 the Ogden 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 customers of the Ogden Municipal Utilities and other parties to whom the Ogden Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Houston & Seeman, P.C.*

Houston & Seeman, P.C.

Boone, Iowa

January 20, 2011

**OGDEN MUNICIPAL UTILITIES**  
**Schedule of Findings**  
**Year Ended June 30, 2010**

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

**Internal Control Deficiencies**

- (A) 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. We noted that the cash receipts listing, bank deposits, and the posting of the cash receipts to the cash receipts journal can be done by the same person.

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

Response – Most of the job responsibilities are alternated each month. We will continue to review situations where duties can be alternated.

Conclusion – Response accepted.

- (B) Preparation of Financial Statements – As is the case with similar governmental entities, the Utilities have historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Utilities' ability to prepare financial statements in accordance with the cash basis of accounting is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Recommendation – The Utilities should evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements, and determine if it is in the best interest of the Utilities to continue to outsource this task to its external auditors.

Response – The Utilities have evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements and determined that it is in the best interest of the Utilities to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Conclusion – Response accepted.

**OGDEN MUNICIPAL UTILITIES**  
**Schedule of Findings**  
**Year Ended June 30, 2010**

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

- (C) Interest Payment – The May 1, 2009 interest payment of \$2,160 for the \$180,000 electric revenue capital loan notes issued in October 2005 was not withdrawn by the paying agent/lender until November 1, 2009.

Recommendation – The Utilities should pay bond principal and interest timely.

Response – The Utilities rely on the bond payment agents for the timely payment of bond principal and interest. Procedures have been reviewed with the paying agent/lender to ensure timely payment of all amounts when due.

Conclusion – Response accepted.

**Instances of Non-Compliance**

No matters were noted.

**Part II: Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Ogden includes amounts for the Utilities. Disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979, were noted.
- (3) Travel Expense – No disbursement of Utilities money for travel expenses of spouses of the Utilities’ officials or employees was noted.
- (4) Business Transactions – No business transactions between the Utilities and Utilities’ officials or employees were noted.
- (5) 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 insure that the coverage is adequate for current operations.

**OGDEN MUNICIPAL UTILITIES**  
**Schedule of Findings**  
**Year Ended June 30, 2010**

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

- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investments provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investments policy were noted.
- (8) Revenue Notes – As noted earlier, the May 1, 2009 interest payment of \$2,160 for the \$180,000 electric revenue capital loan notes issued in October 2005 was not withdrawn by the paying agent/lender until November 1, 2009.

Recommendation – The Utilities should pay bond principal and interest timely.

Response – The Utilities rely on the bond payment agents for the timely payment of bond principal and interest. Procedures have been reviewed with the paying agent/lender to ensure timely payment of all amounts when due.

Conclusion – Response accepted.