

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

Remsen, Iowa

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

June 30, 2011

# 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 2016
Tom Bacan	Trustee	January 2012
Steve Pick	Operations Director	



## 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, 2011, 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' 2010 financial statements and, in our report dated March 11, 2011, 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011, 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.



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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 19 through 21, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting, for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements. Supplementary information included on pages 22 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sioux City, Iowa  
December 8, 2011

*King Reinisch Grosser & Co LLP*

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

Municipal Utilities of the City of Remsen (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, 2011. We encourage readers to consider this information in conjunction with the financial statements, which follow.

### **2011 Financial Highlights**

- The Municipal Utilities' assets exceed liabilities by \$4,018,879 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,108,303.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$3,070,203 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 \$6,151 are restricted by constraints imposed from outside the Municipal Utilities which include debt covenants.
  - (3) Unrestricted net assets of \$942,525 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 \$89,424. The decrease in net assets was due to the increase in electricity costs to the Municipal Utilities that was not passed onto the customers.

### **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 \$4,018,879. This is a decrease over last year's net assets of \$89,424. The following table provides a summary of assets, liabilities and net assets at June 30:

	2011	2010	Amount Change	Percentage Change
Current and other assets	\$ 1,643,797	\$ 1,804,588	\$ (160,791)	-8.91%
Capital assets	3,150,203	3,132,382	17,821	0.57%
Total assets	4,794,000	4,936,970	(142,970)	-2.90%
Long-term liabilities	560,000	506,886	53,114	10.48%
Other liabilities	215,121	321,781	(106,660)	-33.15%
Total liabilities	775,121	828,667	(53,546)	-6.46%
Net assets:				
Invested in capital assets, net of related debt	3,070,203	3,052,382	17,821	0.58%
Restricted for debt service	6,151	3,503	2,648	75.59%
Unrestricted	942,525	1,052,418	(109,893)	-10.44%
Total net assets	\$ 4,018,879	\$ 4,108,303	\$ (89,424)	-2.18%

The Municipal Utilities reported positive balances in net assets for all funds. The decrease in net assets was due to the decrease in usage by the electric and gas utility customers.

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

	2011	2010	Amount Change	Percentage Change
<b>Operating revenues:</b>				
Charges for services	\$ 1,995,917	\$ 2,355,564	\$ (359,647)	-15.27%
<b>Operating expenses:</b>				
Personal services	356,242	371,918	(15,676)	-4.21%
Contractual services	24,861	26,718	(1,857)	-6.95%
Utilities	27,515	28,685	(1,170)	-4.08%
Repairs and maintenance	52,737	15,456	37,281	241.21%
Other supplies and expenses	1,318,253	1,529,637	(211,384)	-13.82%
Insurance claims and expenses	73,363	69,547	3,816	5.49%
Depreciation/amortization	229,630	223,231	6,399	2.87%
Total operating expenses	<u>2,082,601</u>	<u>2,265,192</u>	<u>(182,591)</u>	<u>-8.06%</u>
Operating income	<u>(86,684)</u>	<u>90,372</u>	<u>(177,056)</u>	<u>-195.92%</u>
<b>Non-operating revenues (expenses):</b>				
Interest and investment revenue	16,238	21,570	(5,332)	-24.72%
Interest expense	(3,400)	(5,268)	1,868	-35.46%
Miscellaneous expenses	(1,640)	(2,198)	558	-25.39%
Total non-operating revenue	<u>11,198</u>	<u>14,104</u>	<u>(2,906)</u>	<u>20.60%</u>
Income before transfers	<u>(75,486)</u>	<u>104,476</u>	<u>(179,962)</u>	<u>172.25%</u>
Transfers in	62,062	51,947	10,115	19.47%
Transfers out	<u>(76,000)</u>	<u>(625,148)</u>	<u>549,148</u>	<u>-87.84%</u>
Changes in net assets	<u>(89,424)</u>	<u>(468,725)</u>	<u>379,301</u>	<u>80.92%</u>
Total net assets - beginning	<u>4,108,303</u>	<u>4,577,028</u>	<u>(468,725)</u>	<u>-10.24%</u>
Total net assets - ending	<u>\$ 4,018,879</u>	<u>\$ 4,108,303</u>	<u>\$ (89,424)</u>	<u>-2.18%</u>

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

### *Major Funds*

The Water Utility Fund accounts for the operation and maintenance of the City's water system. The transfer from the City of Remsen for \$27,886 contributed primarily to the overall increase in net assets of \$25,231. The transfer was used to make a principal payment on the Source Water Protection Water Revenue Capital Loan Notes.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric system. The increased electricity costs contributed primarily to the overall decrease in net assets of \$99,612.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. A decrease in the gas revenue contributed primarily to the decrease in net assets of \$18,368. The gas revenue was down because customer usage was down approximately 30 percent.

## **Capital Assets and Debt Administration**

### *Capital Assets*

The Municipal Utilities' investment in capital assets, net of accumulated depreciation as of June 30, 2011 was \$3,150,203. The total increase in this net investment was 0.57 percent. For additional information about changes in capital assets during the fiscal year, see the notes to the financial statements.

	<u>2011</u>	<u>2010</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Depreciable assets:				
Utility systems	2,707,317	2,723,475	(16,158)	-0.59%
Equipment	353,632	310,414	43,218	13.92%
Automotive equipment	536	9,775	(9,239)	-94.52%
Total	<u>\$ 3,150,203</u>	<u>\$ 3,132,382</u>	<u>\$ 17,821</u>	<u>0.57%</u>

### *Debt Administration*

At the end of the fiscal year, the Municipal Utilities had total debt outstanding of \$588,000. This debt is supported by pledged revenues generated primarily by the Water Utility Fund (revenue notes). See the notes to 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 2012 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 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 Steve Pick, Utility Operations Director, P.O. Box 510, Remsen, Iowa 51050.

# **FINANCIAL STATEMENTS**

**Municipal Utilities of the City of Remsen**  
**Statement of Net Assets**  
**June 30, 2011**  
**(With Comparative Totals For June 30, 2010)**

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2011</u>	<u>Total 2010</u>
<b>Assets:</b>						
Current assets:						
Cash	\$ -	\$ 810,084	\$ 315,828	\$ 6,770	\$ 1,132,682	\$ 1,267,445
Accounts receivable	25,892	87,598	27,567	-	141,057	152,485
Accrued interest receivable	9	2,289	998	-	3,296	3,787
Inventories	11,355	77,104	12,729	-	101,188	101,541
Prepaid insurance	10,126	20,253	20,253	-	50,632	56,554
Total current assets	<u>47,382</u>	<u>997,328</u>	<u>377,375</u>	<u>6,770</u>	<u>1,428,855</u>	<u>1,581,812</u>
Non-current assets:						
Investments	-	161,234	-	-	161,234	175,985
Loan costs (net of amortization)	5,390	-	-	-	5,390	5,690
Restricted cash	-	-	-	48,318	48,318	41,101
Capital assets:						
Land and improvements	82,218	-	6,500	-	88,718	88,718
Utility system	2,665,618	4,137,260	700,109	-	7,502,987	7,351,367
Equipment	266,435	286,577	234,773	-	787,785	711,934
Less: accumulated depreciation	<u>(1,384,478)</u>	<u>(3,336,609)</u>	<u>(508,200)</u>	<u>-</u>	<u>(5,229,287)</u>	<u>(5,019,637)</u>
Total capital assets	<u>1,629,793</u>	<u>1,087,228</u>	<u>433,182</u>	<u>-</u>	<u>3,150,203</u>	<u>3,132,382</u>
Total non-current assets	<u>1,635,183</u>	<u>1,248,462</u>	<u>433,182</u>	<u>48,318</u>	<u>3,365,145</u>	<u>3,355,158</u>
Total assets	<u>1,682,565</u>	<u>2,245,790</u>	<u>810,557</u>	<u>55,088</u>	<u>4,794,000</u>	<u>4,936,970</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	-	107,739	36,936	-	144,675	174,904
Accrued interest payable	279	-	-	-	279	279
Interfund balances	86,057	(86,057)	-	-	-	-
Meter deposits	-	-	-	42,167	42,167	37,598
Notes payable	28,000	-	-	-	28,000	109,000
Total current liabilities	<u>114,336</u>	<u>21,682</u>	<u>36,936</u>	<u>42,167</u>	<u>215,121</u>	<u>321,781</u>
Non-current liabilities:						
Notes payable	560,000	-	-	-	560,000	506,886
Total non-current liabilities	<u>560,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,000</u>	<u>506,886</u>
Total liabilities	<u>674,336</u>	<u>21,682</u>	<u>36,936</u>	<u>42,167</u>	<u>775,121</u>	<u>828,667</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,549,793	1,087,228	433,182	-	3,070,203	3,052,382
Restricted for debt service	-	-	-	6,151	6,151	3,503
Unrestricted	(541,564)	1,136,880	340,439	6,770	942,525	1,052,418
Total net assets	<u>\$ 1,008,229</u>	<u>\$ 2,224,108</u>	<u>\$ 773,621</u>	<u>\$ 12,921</u>	<u>\$ 4,018,879</u>	<u>\$ 4,108,303</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2011**  
**(With Comparative Totals For June 30, 2010)**

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2011</u>	<u>Total 2010</u>
<b>Operating revenues:</b>						
Charges for services	\$ 235,494	\$ 1,128,937	\$ 631,486	\$ -	\$ 1,995,917	\$ 2,355,564
Total operating revenues	<u>235,494</u>	<u>1,128,937</u>	<u>631,486</u>	<u>-</u>	<u>1,995,917</u>	<u>2,355,564</u>
<b>Operating expenses:</b>						
Personal services	56,549	151,759	147,934	-	356,242	371,918
Contractual services	2,180	16,772	5,909	-	24,861	26,718
Utilities	16,906	9,505	1,104	-	27,515	28,685
Repairs and maintenance	11,171	36,954	4,612	-	52,737	15,456
Other supplies and expenses	33,951	847,082	437,220	-	1,318,253	1,529,637
Insurance claims and expenses	15,653	30,000	27,710	-	73,363	69,547
Depreciation	96,342	110,021	23,267	-	229,630	223,231
Total operating expenses	<u>232,752</u>	<u>1,202,093</u>	<u>647,756</u>	<u>-</u>	<u>2,082,601</u>	<u>2,265,192</u>
Operating income (loss)	<u>2,742</u>	<u>(73,156)</u>	<u>(16,270)</u>	<u>-</u>	<u>(86,684)</u>	<u>90,372</u>
<b>Non-operating revenues (expenses):</b>						
Interest and investment revenue	903	8,544	6,066	725	16,238	21,570
Interest expense	-	-	-	(3,400)	(3,400)	(5,268)
Miscellaneous expenses	(300)	-	-	(1,340)	(1,640)	(2,198)
Total non-operating revenue (expenses)	<u>603</u>	<u>8,544</u>	<u>6,066</u>	<u>(4,015)</u>	<u>11,198</u>	<u>14,104</u>
Income (loss) before transfers	3,345	(64,612)	(10,204)	(4,015)	(75,486)	104,476
Transfers in	27,886	-	26,836	7,340	62,062	51,947
Transfers out	(6,000)	(35,000)	(35,000)	-	(76,000)	(625,148)
Change in net assets	25,231	(99,612)	(18,368)	3,325	(89,424)	(468,725)
Total net assets - beginning	982,998	2,323,720	791,989	9,596	4,108,303	4,577,028
Total net assets - ending	<u>\$ 1,008,229</u>	<u>\$ 2,224,108</u>	<u>\$ 773,621</u>	<u>\$ 12,921</u>	<u>\$ 4,018,879</u>	<u>\$ 4,108,303</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2011**  
**(With Comparative Totals For June 30, 2010)**

	Water Utility	Electric Utility	Gas Utility	Other Enterprise Funds	Total 2011	Total 2010
<b>Cash flows from operating activities:</b>						
Cash received from (paid to) customers	\$ 233,423	\$ 1,128,964	\$ 644,958	\$ 4,569	\$ 2,011,914	\$ 2,350,064
Cash payments to suppliers for goods and services	(75,017)	(915,712)	(489,075)	-	(1,479,804)	(1,683,166)
Cash payments to employees	(56,549)	(151,759)	(147,934)	-	(356,242)	(371,918)
Net cash provided (used) by operating activities	<u>101,857</u>	<u>61,493</u>	<u>7,949</u>	<u>4,569</u>	<u>175,868</u>	<u>294,980</u>
<b>Cash flows from non-capital financing activities:</b>						
Receipts under interfund loans	86,057	97,815	-	-	183,872	147,446
Payments under interfund loans	(97,815)	(86,057)	-	-	(183,872)	(147,446)
Transfers to other funds	(6,000)	-	-	-	(6,000)	(6,252)
Transfers from other funds	-	-	-	6,000	6,000	6,252
Transfers from City of Remsen	27,886	-	26,836	1,340	56,062	74,637
Transfers to City of Remsen	-	(35,000)	(35,000)	-	(70,000)	(119,440)
Net cash provided (used) by non-capital financing activities	<u>10,128</u>	<u>(23,242)</u>	<u>(8,164)</u>	<u>7,340</u>	<u>(13,938)</u>	<u>(44,803)</u>
<b>Cash flows from capital and related financing activities:</b>						
Principal payments under bond obligations	(27,886)	-	-	-	(27,886)	(50,000)
Interest payments and other costs under bond obligations	-	-	-	(4,740)	(4,740)	(5,663)
Purchases of capital assets	(85,006)	(138,954)	(64,370)	-	(288,330)	(276,660)
Net cash provided (used) by capital and related financing activities	<u>(112,892)</u>	<u>(138,954)</u>	<u>(64,370)</u>	<u>(4,740)</u>	<u>(320,956)</u>	<u>(332,323)</u>
<b>Cash flows from investing activities:</b>						
Investment income	907	8,903	6,194	725	16,729	23,653
Investments in MBMECA	-	14,751	-	-	14,751	2,248
Net cash provided (used) by investing activities	<u>907</u>	<u>23,654</u>	<u>6,194</u>	<u>725</u>	<u>31,480</u>	<u>25,901</u>
Net increase (decrease) in cash	-	(77,049)	(58,391)	7,894	(127,546)	(56,245)
Cash and restricted cash - beginning	-	887,133	374,219	47,194	1,308,546	1,364,791
Cash and restricted cash - ending	<u>\$ -</u>	<u>\$ 810,084</u>	<u>\$ 315,828</u>	<u>\$ 55,088</u>	<u>\$ 1,181,000</u>	<u>\$ 1,308,546</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 2,742	\$ (73,156)	\$ (16,270)	\$ -	\$ (86,684)	\$ 90,372
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	96,342	110,021	23,267	-	229,630	223,231
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(2,071)	27	13,472	-	11,428	(6,514)
(Increase) decrease in inventories	2,632	(3,494)	1,215	-	353	(8,225)
(Increase) decrease in prepaid insurance	2,212	2,882	828	-	5,922	(6,966)
Increase (decrease) in accounts payable	-	25,213	(14,563)	-	10,650	2,068
Increase (decrease) in meter deposits	-	-	-	4,569	4,569	1,014
Net cash provided (used) by operating activities	<u>\$ 101,857</u>	<u>\$ 61,493</u>	<u>\$ 7,949</u>	<u>\$ 4,569</u>	<u>\$ 175,868</u>	<u>\$ 294,980</u>
<b>Supplemental schedule of noncash investing, capital, and financing transactions:</b>						
Capital assets purchased by short-term debt (accounts payable)	\$ -	\$ 6,537	\$ 3,652	\$ -	\$ 10,189	\$ 51,068
City's direct payment on the Municipal Utilities' capital loan notes and loan servicing fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,339
City's direct receipt of proceeds from issuance of the Municipal Utilities' revenue capital loan notes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 564,886

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Municipal Utilities is a discretely presented component unit of the City of Remsen, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Municipal Utilities is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria. They account for the operations of utility services provided to the residents of the City of Remsen who pay user charges to finance those operations.

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 using the economic resources measurement focus and 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, 2011**

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/amortization 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, 2011**

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, 2011 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, 2011, the Municipal Utilities held no cash equivalents.

Cash is composed accordingly as of June 30, 2011:

Checking accounts	\$	354,682
Certificates of deposit		778,000
Total		\$ 1,132,682

NOTE C - INVESTMENTS:

The members of Missouri Basin Municipal Electric Cooperative have agreed to establish a restricted fund for future expansion of their transmission facility. Each member pays \$.0050 per 100 KWH used into the fund. The Municipal Utilities' share of the fund decreased by \$14,751 during the current fiscal year to a June 30, 2011 balance of \$161,234.

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, 2011**

**NOTE D - RESTRICTED ASSETS:**

At June 30, 2011, \$6,151 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 \$42,167 of customer utility deposits at June 30, 2011. Restricted assets are reported in various funds for cash deposited in bank accounts legally restricted for specific uses such as the payment of debt service and refund of utility deposits. See Note A describing the priority for use of restricted and unrestricted assets.

**NOTE E - CAPITAL ASSETS:**

A summary of changes in the capital assets for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 88,718	\$ -	\$ -	\$ 88,718
Total capital assets not being depreciated	88,718	-	-	88,718
<b>Capital assets being depreciated:</b>				
Water utility system	2,643,545	22,073	-	2,665,618
Electric utility system	4,059,248	93,012	15,000	4,137,260
Gas utility system	648,574	51,536	-	700,110
Equipment	542,291	80,199	4,980	617,510
Automotive equipment	169,643	631	-	170,274
Total capital assets being depreciated	8,063,301	247,451	19,980	8,290,772
<b>Less accumulated depreciation:</b>				
Water utility system	(1,238,207)	(81,694)	-	(1,319,901)
Electric utility system	(3,050,665)	(85,655)	(15,000)	(3,121,320)
Gas utility system	(339,020)	(15,430)	-	(354,450)
Equipment	(231,877)	(36,981)	(4,980)	(263,878)
Automotive equipment	(159,868)	(9,870)	-	(169,738)
Total accumulated depreciation	(5,019,637)	(229,630)	(19,980)	(5,229,287)
Total net capital assets being depreciated	3,043,664	17,821	-	3,061,485
Total business-type activities capital assets, net	\$ 3,132,382	\$ 17,821	\$ -	\$ 3,150,203

Depreciation expense of \$229,630 was charged to the business type activities function on the statement of activities.

**NOTE F - INTERFUND BALANCES:**

Interfund balances at June 30, 2010 consisted of \$86,057 due by the Water Utility Fund to the Electric Utility Fund. The operating expenses along with the transfers out to the Water Reserve Fund to pay the Water Revenue Capital Loan Notes has exceeded the revenues collected by its costumers causing the Water Utility Fund to overdrawing its share of an internal pooled checking account.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE G - NOTES PAYABLE:

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. For the year ended June 30, 2011, interest paid and total customer net revenues were \$3,400 and \$235,494, respectively. The \$80,391 of principal and interest remaining on the notes was refinanced with a bank line-of-credit subsequent to June 30, 2011.

Source Water Protection Water Revenue Capital Loan Notes - The City has pledged future water net revenues to repay the \$564,886 in water revenue notes issued in July 2009. Proceeds from the notes provided financing for the City of Remsen to acquire land to protect the City's water source. The notes are payable solely from water customer net revenue and are payable through 2028. Since net revenues has not been defined elsewhere, the City defines net revenues as total charges for services as determined in accordance with U.S. generally accepted accounting principles. Annual principal payments on the notes are expected to require approximately 12 percent of net revenues. For the year ended June 30, 2011, principal paid and total customer net revenues were \$27,886 and \$235,494, respectively. The total principal remaining to be paid on the notes is \$508,000.

The total amount of interest costs paid during the year was \$3,400.

During the year ended June 30, 2011 the following changes occurred in notes payable:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Water capital loan notes	\$ 80,000	\$ -	\$ -	\$ 80,000	\$ -
Water revenue capital loan notes	535,886	-	27,886	508,000	28,000
	<u>\$ 615,886</u>	<u>\$ -</u>	<u>\$ 27,886</u>	<u>\$ 588,000</u>	<u>\$ 28,000</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE G - NOTES PAYABLE (CONTINUED):

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

Year Ending June 30,	Water Capital Loan Notes (Refinanced July 13, 2011)		Source Water Protection Water Revenue Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ -	\$ 391	\$ 28,000	\$ -	\$ 28,000	\$ 391
2013	80,000	3,400	28,000	-	108,000	3,400
2014	-	-	28,000	-	28,000	-
2015	-	-	28,000	-	28,000	-
2016	-	-	28,000	-	28,000	-
2017-2021	-	-	140,000	-	140,000	-
2022-2026	-	-	141,000	-	141,000	-
2027-2029	-	-	87,000	-	87,000	-
	<u>\$ 80,000</u>	<u>\$ 3,791</u>	<u>\$ 508,000</u>	<u>\$ -</u>	<u>\$ 588,000</u>	<u>\$ 3,791</u>

NOTE H - 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 4.50 percent of their annual salary and the Utilities are required to contribute 6.95 percent of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$16,111, \$16,696 and \$13,276, respectively, equal to the required contribution for each year.

NOTE I - 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, 2011 is considered immaterial.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE J - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 5 active members and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Municipal Utilities. The Municipal Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Municipal Utilities and plan members are \$437 for single coverage and \$1,342 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the Municipal Utilities contributed \$49,868 and plan members eligible for benefits contributed \$3,754 to the plan.

Annual OPEB Cost and Net OPEB Obligation - The Municipal Utilities' annual OPEB cost is a calculation based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The increase in the net OPEB obligation is based on the annual OPEB cost each year less contributions made. These financial statements do not reflect an OPEB cost or liability because management feels the amounts are not significant.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE K - TRANSFERS:**

During the year ended June 30, 2011, transfers totaling \$6,000 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 notes in accordance with the debt resolutions.

The Electric Utility Fund and Gas Utility Fund made transfers of \$35,000 and \$35,000, respectively, to the City of Remsen for the payment of debt during the year ended June 30, 2011.

During the year ended June 30, 2011, transfers totaling \$26,836 were received by the Gas Utility Fund from Urban Renewal Tax Increment Fund of the City of Remsen as repayment for a gas main replacement.

During the year ended June 30, 2011, the City of Remsen transferred \$1,340 and \$27,886 to the Water Reserve Fund and Water Utility Fund, respectively, for the principal payment and servicing fees associated with the Source Water Protection Water Revenue Capital Loan Note.

**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 \$67,440 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2011.

# **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, 2011**

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
<b>Receipts:</b>				
Use of money and property	\$ 16,729	\$ 29,610	\$ 29,610	\$ (12,881)
Charges for services	2,011,914	2,848,126	2,848,126	(836,212)
Miscellaneous	-	54,560	54,560	(54,560)
	<u>2,028,643</u>	<u>2,932,296</u>	<u>2,932,296</u>	<u>(903,653)</u>
<b>Disbursements:</b>				
Business-type activities	<u>2,142,251</u>	<u>2,974,977</u>	<u>2,974,977</u>	<u>832,726</u>
Deficiency of receipts under disbursements	(113,608)	(42,681)	(42,681)	<u>\$ (70,927)</u>
<b>Other financing sources (uses):</b>				
Transfers in	62,062	-	-	
Transfers out	<u>(76,000)</u>	-	-	
	<u>(13,938)</u>	-	-	
Deficiency of receipts under disbursements and transfers	(127,546)	(42,681)	(42,681)	
Cash balance - beginning	<u>1,308,546</u>	<u>1,793,015</u>	<u>1,793,015</u>	
Cash balance - ending	<u>\$ 1,181,000</u>	<u>\$ 1,750,334</u>	<u>\$ 1,750,334</u>	

**Municipal Utilities of the City of Remsen**  
**Budgetary Comparison Schedule - Budget to GAAP Reconciliation**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2011**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,028,643	\$ (16,488)	\$ 2,012,155
Expenses	(2,142,251)	54,610	(2,087,641)
Other financing sources (uses)	(13,938)	-	(13,938)
Net	(127,546)	38,122	(89,424)
Net assets - beginning	1,308,546	2,799,757	4,108,303
Net assets - ending	<u>\$ 1,181,000</u>	<u>\$ 2,837,879</u>	<u>\$ 4,018,879</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Required Supplementary Information -**  
**Budgetary Reporting**  
**June 30, 2011**

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. In the City of Remsen's budgeting process, the Municipal Utilities receipts and disbursements are combined with the City's Sewer and Garbage Fund receipts and disbursements to develop an overall proprietary fund budget. The Actual results include only the Municipal Utilities while the Budget includes the proprietary funds as a whole. The City of Remsen's annual financial statements will give the complete overview of the City's 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 City did not amend its utilities budget during the year ended June 30, 2011.

# **SUPPLEMENTARY INFORMATION**

**Municipal Utilities of the City of Remsen**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2011**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash	\$ -	\$ 6,770	\$ 6,770
Restricted assets:			
Cash	6,151	42,167	48,318
Total assets	6,151	48,937	55,088
<b>Liabilities:</b>			
Current liabilities:			
Meter deposits	-	42,167	42,167
Total liabilities	-	42,167	42,167
<b>Net assets:</b>			
Restricted for debt service	6,151	-	6,151
Unrestricted	-	6,770	6,770
Total net assets	\$ 6,151	\$ 6,770	\$ 12,921

**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, 2011**

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
<b>Non-operating revenues (expenses):</b>			
Interest and investment revenue	\$ 48	\$ 677	\$ 725
Interest expense	(3,400)	-	(3,400)
Miscellaneous expenses	(1,340)	-	(1,340)
Total non-operating revenue (expenses)	<u>(4,692)</u>	<u>677</u>	<u>(4,015)</u>
Transfers in	<u>7,340</u>	<u>-</u>	<u>7,340</u>
Change in net assets	<u>2,648</u>	<u>677</u>	<u>3,325</u>
Total net assets - beginning	<u>3,503</u>	<u>6,093</u>	<u>9,596</u>
Total net assets - ending	<u><u>\$ 6,151</u></u>	<u><u>\$ 6,770</u></u>	<u><u>\$ 12,921</u></u>

**Municipal Utilities of the City of Remsen  
Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2011**

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from (paid to) customers	\$ -	\$ 4,569	\$ 4,569
Net cash used for operating activities	<u>-</u>	<u>4,569</u>	<u>4,569</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfers from the City of Remsen	1,340	-	1,340
Transfers from other funds and the City of Remsen	6,000	-	6,000
Net cash provided by financing activities	<u>7,340</u>	<u>-</u>	<u>7,340</u>
<b>Cash flows from capital and related financing activities:</b>			
Interest payments and other costs under bond obligations	<u>(4,740)</u>	-	<u>(4,740)</u>
Net cash used for capital and related financing activities	<u>(4,740)</u>	<u>-</u>	<u>(4,740)</u>
<b>Cash flows from investing activities:</b>			
Investment income	<u>48</u>	<u>677</u>	<u>725</u>
Net cash provided by investing activities	<u>48</u>	<u>677</u>	<u>725</u>
Net increase in cash	2,648	5,246	7,894
Cash and restricted cash - beginning	<u>3,503</u>	<u>43,691</u>	<u>47,194</u>
Cash and restricted cash - ending	<u>\$ 6,151</u>	<u>\$ 48,937</u>	<u>\$ 55,088</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in meter deposits	<u>-</u>	<u>4,569</u>	<u>4,569</u>
Net cash used for operating activities	<u>\$ -</u>	<u>\$ 4,569</u>	<u>\$ 4,569</u>

**Municipal Utilities of the City of Remsen  
Bond and Note Maturities  
June 30, 2010**

Year Ending June 30,	Revenue Notes				
	Iowa State Bank July 13, 2011		Source Water Protection Water Revenue Capital Loan Notes July 1, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	
2012	4.25%	\$ -	0.00%	\$ 28,000	\$ 28,000
2013	4.25%	80,000	0.00%	28,000	108,000
2014		-	0.00%	28,000	28,000
2015		-	0.00%	28,000	28,000
2016		-	0.00%	28,000	28,000
2017		-	0.00%	28,000	28,000
2018		-	0.00%	28,000	28,000
2019		-	0.00%	28,000	28,000
2020		-	0.00%	28,000	28,000
2021		-	0.00%	28,000	28,000
2022		-	0.00%	28,000	28,000
2023		-	0.00%	28,000	28,000
2024		-	0.00%	28,000	28,000
2025		-	0.00%	28,000	28,000
2026		-	0.00%	29,000	29,000
2027		-	0.00%	29,000	29,000
2028		-	0.00%	29,000	29,000
2029		-	0.00%	29,000	29,000
		<u>\$ 80,000</u>		<u>\$ 508,000</u>	<u>\$ 588,000</u>

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

2011

2010

RESIDENTIAL SERVICE

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

COMMERCIAL SERVICE AND POWER

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

ELECTRIC CUSTOMERS

Residential Customers - 689  
Commercial Customers - 227

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

2011

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2010

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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 - \$7.50  
Next 14,000 gallons - \$3.25 per M gallons  
Over 15,000 gallons - \$3.00 per M gallons  
Minimum charge - \$7.50 per month

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 - \$8.50  
Next 5,000 gallons - \$3.25 per M gallons  
Over 6,000 gallons - \$3.00 per M gallons  
Minimum charge - \$8.50

WATER CUSTOMERS

Residential Customers - 650  
Commercial Customers - 122

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

2011

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2010

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RESIDENTIAL AND COMMERCIAL

All CF                    \$9.44 per MCF  
Minimum charge - \$9.44 per month

All CF                    \$8.70 per MCF  
Minimum charge - \$8.70 per month

GAS CUSTOMERS

Residential Customers - 609  
Commercial Customers - 110



**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, (Municipal Utilities), a component unit of the City, as of and for the year ended June 30, 2011, which collectively comprise the Municipal Utilities' basic financial statements and have issued our report thereon dated December 8, 2011. 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**

Management of the Municipal Utilities is responsible for establishing and maintaining effective 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies I-A-11 and I-B-11 described in the accompanying schedule of findings and responses to be material weaknesses.



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

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency I-C-11 described in the accompanying schedule of findings and responses to be a significant deficiency.

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, 2011 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 and employees of the Municipal Utilities, and citizens of the City of Remsen, Iowa, and other parties to whom the Municipal Utilities officials may report and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "King Reinisch Prosser &amp; Co. LLP".

Sioux City, Iowa  
December 8, 2011

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2011**

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

I-A-11 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-11 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, 2011**  
**(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 procedures and implement changes as deemed necessary.

**SIGNIFICANT DEFICIENCIES:**

**I-C-11    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* - The employees are seeking training on the software. The procedures over preparing reconciliations will be addressed once the employees have been trained.

Part II: Other Findings Related to Required Statutory Reporting

II-A-11    *Certified Budget* - We noted no instances of noncompliance.

II-B-11    *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-11    *Travel Expense* - No disbursements of City money for travel expenses of spouses of Board of Trustees or employees were noted.

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2011  
(Continued)**

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

II-D-11 *Business Transactions* - The Municipal Utilities had business transactions of \$67,440 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2011.

*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-11 *Bond Coverage* - Surety bond coverage of Board of Trustees and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-11 *Board of Trustees Minutes* - In March 2011, it was determined the Municipal Utilities receipts for setup fees were all being coded to the Garbage Fund. From January 2008 to February 2011, the total receipts amounted to \$6,981.44. To correct the error, \$2,853.97 of miscellaneous charges collected from May 2011 to July 2011 were used to reimburse the Municipal Utilities for the error. The transfer to correct the Garbage Fund and the Municipal Utilities should have been approved by both governing bodies. After the audit fieldwork, receipts were no longer being transferred.

Minutes of the Board of Trustees proceedings were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The minutes were not all signed as required by the Code of Iowa.

*Recommendation* - The Trustees should document authorized transfers in the minutes or budget for them. The Trustees need to address the remaining outstanding balance of \$4,127.47 that the Garbage Fund has not repaid. The Municipal Utilities should comply with Chapter 21 of the Code of Iowa and should publish and sign the minutes as required.

*Response* - The Trustees will review procedures and make changes that are considered necessary to be in compliance with Code of Iowa.

II-G-11 *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-11 *Water Revenue Capital Loan Notes* - No instances of non-compliance with the revenue note resolutions were noted.