

**ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
(A Component Unit of the City of Alta, Iowa)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

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ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**OFFICIALS
DECEMBER 31, 2011**

Name	Position	Term Expires
Governing Board-		
Jeff James	Trustee	June 2016
David Taylor	Trustee	June 2017
Dennis Weber	Trustee	June 2012
Thomas Stanton	Trustee	June 2014
Kevin Walsh	Trustee	June 2015
Others-		
Tim Taylor	Superintendent	Resigned October 2011
Randy Tilk	Superintendent	Hired January 2012

O'Donnell, Ficenec, Wills & Ferdig, LLP

Certified Public Accountants

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Geoffrey F. Schnathorst, C.P.A.
Catherine T. Kellogg, C.P.A.

INDEPENDENT AUDITORS' REPORT

Alta Municipal Broadband Communications Utility
Alta, Iowa

We have audited the accompanying financial statements of the business-type activities and each major fund of Alta Municipal Broadband Communications Utility (the Communications Utility), a component unit of City of Alta, Iowa, as of and for the year ended December 31, 2011, which collectively comprise the Communications Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Communications Utility's management. Our responsibility is to express an opinion on these financial statements 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 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.

As described in Note 1, the financial statements of the Alta Municipal Broadband Communications Utility are intended to present the financial position and results of operations and the cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Alta, Iowa, that is attributable to the transactions of the Communications Utility.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Alta Municipal Broadband Communications Utility, as of December 31, 2011, and the respective changes in its financial position and cash flows 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 August 1, 2012, on our consideration of the Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on Schedule 1, page 12, 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 the 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 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 Alta Municipal Broadband Communications Utility's financial statements as a whole. The other supplementary schedule of expenses, Schedule 2, pages 14 and 15, is presented for the purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and 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 financial statements as a whole.

Management has not presented management's discussion and analysis that governmental accounting principles generally Accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

August 1, 2012

FINANCIAL STATEMENTS

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

ASSETS	Business Type Activities - Enterprise Funds		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
CURRENT ASSETS:			
Cash and Invested Cash	\$ 97,103	\$ 128,644	\$ 225,747
Accounts Receivable, Net of Allowance	33,236	40,583	73,819
Prepaid Expenses	896	1,029	1,925
Total Current Assets	131,235	170,256	301,491
CAPITAL ASSETS:			
Utility Plant, Facilities and Equipment, at Cost	789,317	2,673,374	3,462,691
Accumulated Depreciation	(616,705)	(2,117,635)	(2,734,340)
Cost Less Depreciation	172,612	555,739	728,351
Total Assets	\$ 303,847	\$ 725,995	\$ 1,029,842
LIABILITIES			
CURRENT LIABILITIES:			
Accounts Payable - Trade	\$ 10,166	\$ 20,763	\$ 30,929
Payroll, Sales and Use Taxes Payable	1,634	1,863	3,497
Accrued Expenses	2,301	2,119	4,420
Deferred Revenue	18,577	37,564	56,141
Total Current Liabilities	32,678	62,309	94,987
NET ASSETS			
Invested in Capital Assets	172,612	555,739	728,351
Unrestricted	98,557	107,947	206,504
Total Net Assets	271,169	663,686	934,855
Total Liabilities and Net Assets	\$ 303,847	\$ 725,995	\$ 1,029,842

See Notes to Financial Statements.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Business Type Activities - Enterprise Funds</u>		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
OPERATING REVENUES:			
Sale of Telephone Services -			
Local	\$ 163,377	\$ -	\$ 163,377
Long Distance	24,434	-	24,434
Access Fees	71,405	-	71,405
Sale of Cable Services -			
Basic Cable	-	244,164	244,164
Premium Channels	-	10,399	10,399
Digital Services	-	26,182	26,182
Directory Advertising	2,935	2,059	4,994
Internet	-	189,923	189,923
Fiber Lease Income	3,850	3,850	7,700
Other Access Fees	2,291	-	2,291
Miscellaneous	4,486	3,473	7,959
Total Operating Revenues	<u>272,778</u>	<u>480,050</u>	<u>752,828</u>
OPERATING EXPENSES:			
Cost of Service and Operations	140,811	269,916	410,727
Maintenance and Distribution Expenses	31,343	22,880	54,223
Administrative General Expenses	81,398	77,240	158,638
Depreciation	16,884	70,068	86,952
Total Operating Expenses	<u>270,436</u>	<u>440,104</u>	<u>710,540</u>
Operating Income	2,342	39,946	42,288
NONOPERATING REVENUES (EXPENSES):			
Contribution to AMU from AMBCU	(250,000)	(125,000)	(375,000)
Change in Net Assets	(247,658)	(85,054)	(332,712)
Total Net Assets - Beginning of Year	518,827	748,740	1,267,567
Total Net Assets - End of Year	<u>\$ 271,169</u>	<u>\$ 663,686</u>	<u>\$ 934,855</u>

See Notes to Financial Statements

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Business Type Activities - Enterprise Funds</u>		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers and Users	\$ 269,772	\$ 476,888	\$ 746,660
Cash Paid to Suppliers for Goods and Services	(190,926)	(286,229)	(477,155)
Cash Paid to Employees for Wages and Benefits	(64,429)	(90,818)	(155,247)
Net Cash Flow from Operating Activities	<u>14,417</u>	<u>99,841</u>	<u>114,258</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contribution to AMU from AMBCU	(250,000)	(125,000)	(375,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Cash Paid for Construction in			
Progress and Capital Assets	<u>(1,846)</u>	<u>(15,763)</u>	<u>(17,609)</u>
Net Cash Flow from Capital and			
Related Financing Activities	<u>(1,846)</u>	<u>(15,763)</u>	<u>(17,609)</u>
Net (Decrease) in Cash and Cash Equivalents	(237,429)	(40,922)	(278,351)
Cash and Cash Equivalents - Beginning of Year	334,532	169,566	504,098
Cash and Cash Equivalents - End of Year	<u>\$ 97,103</u>	<u>\$ 128,644</u>	<u>\$ 225,747</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Exhibit B)	\$ 2,342	\$ 39,946	\$ 42,288
Adjustments to Reconcile Operating Income			
to Net Cash From Operating Activities -			
Depreciation - Capital Assets	16,884	70,068	86,952
(Increase) Decrease in Operating Assets -			
Accounts Receivable	(4,768)	(3,162)	(7,930)
Allowance for Doubtful Accounts	1,762	-	1,762
Prepaid Expenses	(37)	(119)	(156)
Increase (Decrease) in Operating Liabilities -			
Accounts and Other Payables	(2,226)	(8,332)	(10,558)
Payroll, Sales and Use Taxes Payable	1,063	1,315	2,378
Accrued Expenses	<u>(603)</u>	<u>125</u>	<u>(478)</u>
Net Cash Flows from			
Operating Activities	<u>\$ 14,417</u>	<u>\$ 99,841</u>	<u>\$ 114,258</u>

See Notes to Financial Statements

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities -

The City of Alta, Iowa, (the City) owns a telephone system, coaxial cable system, electric light and power system and water treatment system. The telephone and coaxial cable systems are operated independently as Alta Municipal Broadband Communication Utility (the Communications Utility) and the electric and water systems are operated independently as Alta Municipal Utilities (AMU). Alta Municipal Broadband Communication Utility is the subject of these financial statements and is governed by a five-member Board of Trustees, appointed by the Mayor with the approval of the City Council. The Trustees exercise all oversight responsibilities.

The Communications Utility provides local and access to long-distance telephone services, cable TV, internet and pager services to a diversified base of residential and commercial customers and other governmental units, primarily within the boundaries of the City. As an independent municipal utility, state statutes vest authority in the Trustees to set usage and rental rates, prepare financial budgets and maintain books of account for each utility system they operate. The Communications Utility is generally not liable for federal and state income taxes or ad valorem taxes on property, but may make payments in-lieu-of taxes to local government.

B. Reporting Entity -

These financial statements include only accounts of the Communications Utility. Generally accepted accounting principles requires management to consider if it has oversight responsibility or control over any other legal entity or receives a financial benefit or is a burden in its relationship with such other entity. The Communications Utility has no component units itself, but has determined that it is a component unit of the City of Alta. The Communications Utility reports its financial activity independent of the City.

C. Basis of Presentation -

The accounts of the Communications Utility are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity and each displayed in a separate column in the financial statements. The activities of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses. All Communications Utility activity is reported as two major enterprise funds: Telephone Utility Fund and Cable TV, Internet and Pager Utility Fund.

Enterprise funds are used to (a) account for the amount by which cost or expenses of providing goods or services to the public are offset by revenue from the sale of such goods or services, or (b) where the governing body has decided determination of revenues earned, expenses incurred, and/or net income is appropriate capital maintenance, public policy, management control, accountability, or other purpose.

These financial statements are presented in conformity with U.S generally accepted accounting principles (GAAP) applicable for enterprise funds of governmental entities. In reporting financial activities, the Communications Utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. **Measurement Focus and Basis of Accounting -**

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Communications Utility's proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the related obligation is incurred, regardless of the timing of related cash flows. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

The statement of net assets and statement of revenues, expenses and changes in net assets display information about the business-type activities of the Communication Utility as a whole and by individual funds. They are presented using the full accrual economic resource basis. For the most part, the effect of interfund activity has been removed from these statements. The statement of net assets presents the Communications Utility's assets and liabilities with the remaining difference reported as net assets in three components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt attributable to acquisition, construction or improvement of those assets.

Restricted net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. There were no restricted net assets in the current year.

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

The statement of revenues, expenses and changes in net assets distinguish operating revenues and expenses from non-operating items to display the degree to which operating expenses of a given function are offset by operating revenue. Operating revenues and expenses generally result from providing, producing and delivering goods or services in connection with an enterprise's principal ongoing operations. Operating revenues are primarily charges to customers for sales or services. Operating expenses include the cost of sales, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating items.

E. **Use of Estimates -**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenue Recognition -

Sale of cable, internet, and telephone services are billed in advance on the 25th of each month for service through the end of the following month. Consequently, billings in the amount of \$56,141 for the month of January have been recorded as deferred revenue. The Communications Utility is billed by its vendors on a calendar month basis for telephone, cable, and internet services.

G. Cash and Cash Equivalents -

The proprietary funds of the Communications Utility combine their cash and invested cash into shared bank accounts at one financial institution. For purposes of cash flows, cash and cash equivalents (nonnegotiable certificates of deposits) are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

H. Accounts Receivable and Allowances -

An estimate is made for allowances for doubtful collections based on an analysis of the aging of accounts receivable and on historical write-offs, net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. The allowance for the Telephone Fund was \$8,431. No allowance was made for the Cable Fund.

I. Capital Assets -

Capital assets, which include utility plants, infrastructures, facilities and equipment, are valued at historical cost. The cost of system renewals and betterments includes engineering, labor, construction period interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

The Communications Utility does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual item basis.

Provision for depreciation of production, transmission, and distribution plant is computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provision for depreciation of general plant is computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

No depreciation is taken on construction in progress. Estimated useful lives by category of capital assets are as follows:

Plant and Structures	20-50 Years
Transmission System and Improvements	25-35 Years
Distribution System and improvements	25-35 Years
Tools and Shop Equipment	5-10 Years
Furniture and Office Equipment	5-10 Years
Vehicles	5 Years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Budgets and Budgetary Accounting -

The budgetary comparison and related disclosures are reported as required supplementary information. The budget is prepared on the same basis as these financial statements. During the year ended December 31, 2011, expenses exceeded the amount budgeted.

NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS

Alta Municipal Broadband Communications Utility and Alta Municipal Utilities pool their deposits and investments and maintain records as to each entities' share of the total balance. All deposits at December 31, 2011, were covered by federal depository insurance or by a multiple financial institution collateral pool 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.

Both entities 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 or savings accounts at federally insured depository institutions approved by the Trustees and Treasurer of the State of Iowa; 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 drainage districts.

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

NOTE 3 - CAPITAL ASSETS

Alta Municipal Utilities' Electric Utility Fund previously built and paid for an underground fiber and coaxial cable communication system. During 2009, AMU transferred this system to the Communications Utility. The Communications Utility allocated twenty-seven percent of the cost to the telephone utility and the remainder to the cable TV and internet utility.

Details of changes in capital asset costs and depreciation reported are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Telephone Utility</u>				
Plant and Equipment Cost	\$ 787,471	\$ 1,846	\$ -	\$ 789,317
Accumulated Depreciation	(599,821)	(16,884)	-	(616,705)
Cost Less Depreciation	<u>\$ 187,650</u>	<u>\$ (15,038)</u>	<u>\$ -</u>	<u>\$ 172,612</u>
<u>CATV, Internet & Pager Utility</u>				
Plant and Equipment Cost	\$ 2,657,611	\$ 15,763	\$ -	\$ 2,673,374
Accumulated Depreciation	(2,047,567)	(70,068)	-	(2,117,635)
Cost Less Depreciation	<u>\$ 610,044</u>	<u>\$ (54,305)</u>	<u>\$ -</u>	<u>\$ 555,739</u>

NOTE 4 - COMPENSATED ABSENCES

The Communications Utility employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with no carryover to subsequent years allowed.

NOTE 5 - PENSION AND RETIREMENT BENEFITS

The Communications Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan participants are required to contribute 4.50% of their annual covered salary through June 30, 2011 and 5.38% through December 31, 2011 and the Communications Utility is required to contribute 6.95% through June 30, 2011 and 8.07% through December 31, 2011 of annual covered payroll. Contribution requirements are established by State statute. The Communications Utility's contributions to IPERS for the years ending December 31, 2011, 2010, and 2009, were \$9,187, \$9,284, and \$8,457, respectively, equal to the required contribution for each year.

NOTE 6 - CONCENTRATIONS

The Communications Utility provides services to commercial and residential customers in a specified service area in and around the City of Alta, Iowa. Credit is granted to substantially all customers, all of whom are local businesses or residents, on terms no more favorable than standard terms of the industry it serves. Possible credit risks have been anticipated and management believes that adequate provision has been made for doubtful collections.

NOTE 7 - RISK MANAGEMENT

The Communications Utility is 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. The Communications Utility assumes 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 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the financial statements for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the statement of net assets.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 1, 2012, which is the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of, or disclosure in, the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (BUDGET BASIS)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual	Original and Final Budget Amounts	Actual to Budget Variance
RESOURCES:			
Charges for Service	\$ 734,878		
Miscellaneous	<u>17,950</u>		
Total Receipts	752,828	\$ 772,760	\$ (19,932)
EXPENDITURES:			
Business Type Activities -			
Operating Expenses	710,540		
Capital Outlay	17,609		
Contribution to AMU	<u>375,000</u>		
Total Disbursements	<u>1,103,149</u>	938,441	(164,708)
Excess (Deficiency) of Receipts Over Disbursements	(350,321)	<u>\$ (165,681)</u>	<u>\$ (184,640)</u>
RECONCILE TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:			
Add Items Expensed on Budget -			
Capital Outlay	<u>17,609</u>		
Sub-Total	(332,712)		
Balance, Beginning of Year	1,267,567		
Balance, End of Year	<u>\$ 934,855</u>		

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

In accordance with the Code of Iowa, the Alta Municipal Broadband Communications Utility Board of Trustees annually adopts a budget on the accrual basis, modified to include expenditures for capital outlay and debt principal payments, following required public notice and hearing for all funds of the business-type enterprise of the Alta Municipal Broadband Communications Utility (Communications Utility). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt services, capital projects and business-type activities. Functional disbursements required to be budgeted include disbursements for the primary government funds and enterprise funds, which would include Communications Utility's disbursements. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

The Communications Utility budget is included in the business-type activities function.

The Communications Utility budget was not amended during the year. The actual expenditures exceeded the budget by \$147,099.

OTHER SUPPLEMENTARY INFORMATION

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Business Type Activities - Enterprise Funds</u>		
	Communications: Telephone Utility Fund	Communications: Cable TV, Internet & Pager Utility Fund	Total
COST OF SERVICE AND OPERATIONS:			
Wages and Benefits	\$ 16,444	\$ 46,275	\$ 62,719
Other Expenses	4,499	8,830	13,329
Circuit Fees	21,659	-	21,659
Basic CATV Programming	-	147,867	147,867
Premium Channel Programming	-	7,895	7,895
Digital Programming	-	11,082	11,082
Internet Fees	-	47,967	47,967
Cab Fees	18,325	-	18,325
Switching Fees	47,893	-	47,893
Long Distance Fees	6,173	-	6,173
Access Fees	9,780	-	9,780
Billing Fees	16,038	-	16,038
	<u>\$ 140,811</u>	<u>\$ 269,916</u>	<u>\$ 410,727</u>
MAINTENANCE AND DISTRIBUTION EXPENSES:			
Wages and Benefits	\$ 7,643	\$ 2,075	\$ 9,718
Supplies	6,778	12,165	18,943
Utilities	8,570	8,640	17,210
Operating Expenses	8,352	-	8,352
	<u>\$ 31,343</u>	<u>\$ 22,880</u>	<u>\$ 54,223</u>
ADMINISTRATIVE GENERAL EXPENSES:			
Wages and Benefits	\$ 40,342	\$ 42,467	\$ 82,809
Office Supplies and Postage	3,112	3,118	6,230
Insurance - Employees	7,536	17,471	25,007
Insurance - General	3,692	4,137	7,829
Professional Fees	14,120	4,837	18,957
Telephone	3,306	1,250	4,556
Technical Support	-	878	878
Advertising	4,743	746	5,489
Dues and Subscriptions	1,269	526	1,795

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Communications: Telephone Utility Fund</u>	<u>Communications: Cable TV, Internet & Pager Utility Fund</u>	<u>Total</u>
ADMINISTRATIVE GENERAL EXPENSES:			
(Continued)			
Meetings and Travel	\$ 50	\$ 105	\$ 155
Bad Debts (Recoveries)	1,307	(280)	1,027
Other Expense	1,921	1,985	3,906
	<u>81,398</u>	<u>77,240</u>	<u>158,638</u>
Total Administrative General Expenses	\$ 81,398	\$ 77,240	\$ 158,638
DEPRECIATION	<u>16,884</u>	<u>70,068</u>	<u>86,952</u>

OTHER REPORTS

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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

Alta Municipal Broadband Communications Utility
Alta, Iowa

We have audited the financial statements of the business-type activities and each major fund of Alta Municipal Broadband Communications Utility (the Communications Utility), a component unit of City of Alta, Iowa, as of and for the year ended December 31, 2011, which collectively comprise the Communication Utility's basic financial statements, and have issued our report thereon dated August 1, 2012. 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 Communications Utility is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Communications Utility's 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 Communications Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Communications Utility's internal control over financial reporting.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over the financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are described in Part II of the accompanying Schedule of Findings and Questioned Costs. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Communications Utility's 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 or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Communications Utility's operations for the year ended December 31, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Communications Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Communications Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Communications Utility's responses, we did not audit the 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 Trustees, management and other parties to whom Alta Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

August 1, 2012

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (c) No material weaknesses in internal controls were noted.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Instances of Non-Compliance:

No matters were noted.

Significant Deficiencies:

II-A-11 **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 bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

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

Response - The Communications Utility will continue to cross-train office employees in an attempt to alleviate the problem. This problem may never be one hundred percent cured due to the limited number of employees to perform the duties.

Conclusion - Response accepted.

II-B-11 **Financial Reporting** - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Utilities board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

**ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (Continued)

Significant Deficiencies: (Continued)

II-B-11 **Financial Reporting** (Continued)

Response - Management was hired due to their expertise in utility operations inside and outside of the office, and their ability to work with specialized professional people. The Utility has no plans of hiring additional people or replacing the existing staff. Alta Broadband Communications Utility has made a conscious decision to rely on the expertise of the auditing firm to prepare year-end financial statements, and to continue to retain a member of management with sufficient knowledge to make management decisions and representations regarding the financial statements.

Conclusion - Response accepted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-11 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended December 31, 2011.

III-B-11 **Certified Budget** - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Utility expenses during the year ended December 31, 2011, exceeded the amount budgeted by \$147,099.

III-C-11 **Questionable Expenditures** - No disbursements were noted that may meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-11 **Travel Expense** - No disbursements of Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-E-11 **Business Transactions** - Business transactions between Alta Municipal Broadband Communications Utility and the Utility's officials are immaterial and meet the guidelines of the Code of Iowa.

III-F-11 **Bond Coverage** - Surety bond coverage of Utility 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.

III-G-11 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

III-H-11 **Deposits and Investments** - No instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa and the Alta Municipal Broadband Communications Utility investment policy were noted.

III-I-11 **Telecommunications Services** - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.