

# **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, 2012

# 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>
Craig Bartolozzi	Chairman	January 2018
Kim Keleher	Trustee	January 2016
Dean Douvia	Trustee	January 2014
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, 2012, 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' 2011 financial statements and, in our report dated December 8, 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, 2012, 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 March 13, 2013, 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 20 through 22, 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 as a whole. Supplementary information included on pages 23 through 29 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 financial statements as a whole.

*King Reinach Prosen & Co. LLP*

Sioux City, Iowa  
March 13, 2013

## **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, 2012. We encourage readers to consider this information in conjunction with the financial statements, which follow.

### **2012 Financial Highlights**

- The Municipal Utilities' assets exceed liabilities by \$3,912,937 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,018,879.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$3,287,519 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 \$11,829 are restricted by constraints imposed from outside the Municipal Utilities which include debt covenants.
  - (3) Unrestricted net assets of \$613,589 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 \$105,942. The decrease in net assets was due to an increase in electric operating costs and a decrease of gas charges for services due to a decrease in gas usage.

### **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 enterprise funds, bond and note maturities, and schedules of rates.

## **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 \$3,912,937. This is a decrease of \$105,942 from last year's net assets. The following table provides a summary of assets, liabilities and net assets at June 30:

	2012	2011	Amount Change	Percentage Change
Current and other assets	\$ 1,328,323	\$ 1,643,797	\$ (315,474)	-19.19%
Capital assets	3,417,519	3,150,203	267,316	8.49%
Total assets	<u>4,745,842</u>	<u>4,794,000</u>	<u>(48,158)</u>	<u>-1.00%</u>
Long-term liabilities	582,000	560,000	22,000	3.93%
Other liabilities	250,905	215,121	35,784	16.63%
Total liabilities	<u>832,905</u>	<u>775,121</u>	<u>57,784</u>	<u>7.45%</u>
Net assets:				
Invested in capital assets, net of related debt	3,287,519	3,070,203	217,316	7.08%
Restricted for debt service	11,829	6,151	5,678	92.31%
Unrestricted	613,589	942,525	(328,936)	-34.90%
Total net assets	<u>\$ 3,912,937</u>	<u>\$ 4,018,879</u>	<u>\$ (105,942)</u>	<u>-2.64%</u>

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 gas utility customers and an increase in electric operating costs.

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

	2012	2011	Amount Change	Percentage Change
<b>Operating revenues:</b>				
Charges for services	\$ 2,064,382	\$ 1,995,917	\$ 68,465	3.43%
<b>Operating expenses:</b>				
Personal services	429,444	356,242	73,202	20.55%
Contractual services	68,823	24,861	43,962	176.83%
Utilities	33,795	27,515	6,280	22.82%
Repairs and maintenance	69,088	52,737	16,351	31.00%
Other supplies and expenses	1,270,564	1,318,253	(47,689)	-3.62%
Insurance claims and expenses	73,881	73,363	518	0.71%
Depreciation/amortization	225,785	229,630	(3,845)	-1.67%
Total operating expenses	2,171,380	2,082,601	88,779	4.26%
Operating income (loss)	(106,998)	(86,684)	(20,314)	23.43%
<b>Non-operating revenues (expenses):</b>				
Interest and investment revenue	8,748	16,238	(7,490)	-46.13%
Interest expense	(5,637)	(3,400)	(2,237)	65.79%
Donations	(10,000)	-	(10,000)	100.00%
Miscellaneous expenses	(1,570)	(1,640)	70	-4.27%
Total non-operating revenue (expense)	(8,459)	11,198	(19,657)	175.54%
Loss before transfers	(115,457)	(75,486)	(39,971)	-52.95%
Transfers in	80,761	62,062	18,699	30.13%
Transfers out	(71,246)	(76,000)	4,754	-6.26%
Changes in net assets	(105,942)	(89,424)	(16,518)	-18.47%
Total net assets - beginning	4,018,879	4,108,303	(89,424)	-2.18%
Total net assets - ending	\$ 3,912,937	\$ 4,018,879	\$ (105,942)	-2.64%

### **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 current year water rate increase resulted in charges for services increase of approximately \$37,000 from the prior year. This revenue increase was consumed by increases in salary expenses and repairs and maintenance expenses. The transfer from the City of Remsen for \$28,000 contributed primarily to the overall increase in net assets of \$10,194. 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 current year electric rate increase was not sufficient to cover the current year operating costs of the electric fund. This caused an overall decrease in net assets of \$58,855.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. The gas consumption used by customers decreased from the prior year causing a decrease in charges

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. The gas consumption used by customers decreased from the prior year causing a decrease in charges for services. The gas utility fund's personal services expenses increased from the prior year due to a change in staff. These fluctuations resulted in a decrease in net assets of \$63,377.

**Capital Assets and Debt Administration**

*Capital Assets*

The Municipal Utilities' investment in capital assets, net of accumulated depreciation as of June 30, 2012 was \$3,417,519. The total increase in this net investment was 8.49 percent. For additional information about changes in capital assets during the fiscal year, see the notes to the financial statements.

	2012	2011	Amount Change	Percentage Change
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Construction in process	137,073	-	137,073	100.00%
Depreciable assets:				
Utility systems	2,834,051	2,707,317	126,734	4.68%
Equipment	357,267	353,632	3,635	1.03%
Automotive equipment	410	536	(126)	-23.51%
Total	<u>\$ 3,417,519</u>	<u>\$ 3,150,203</u>	<u>\$ 267,316</u>	<u>8.49%</u>

*Debt Administration*

At the end of the fiscal year, the Municipal Utilities had total debt outstanding of \$610,000. This debt is supported by pledged revenues generated primarily by the Water Utility Fund (revenue notes). During the year ended June 30, 2012, the utilities entered into a line of credit agreement to provide funds for the final payment on the water capital loan notes and to provide cash for operations. Total draws on the line of credit were \$130,000 during the year. 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 2013 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 \$2.8 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 Rachel Keffeler, Utility Clerk, P.O. Box 510, Remsen, Iowa 51050.

# **BASIC FINANCIAL STATEMENTS**

**Municipal Utilities of the City of Remsen**  
**Statement of Net Assets**  
**June 30, 2012**  
**(With Comparative Totals For June 30, 2011)**

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2012</u>	<u>Total 2011</u>
<b>Assets:</b>						
Current assets:						
Cash	\$ -	\$ 545,956	\$ 259,627	\$ 7,148	\$ 812,731	\$ 1,132,682
Accounts receivable	29,945	87,933	18,032	-	135,910	141,057
Accrued interest receivable	8	914	560	-	1,482	3,296
Inventories	9,858	102,859	12,261	-	124,978	101,188
Prepaid insurance	9,191	18,383	18,383	-	45,957	50,632
Total current assets	<u>49,002</u>	<u>756,045</u>	<u>308,863</u>	<u>7,148</u>	<u>1,121,058</u>	<u>1,428,855</u>
Non-current assets:						
Investments	-	152,406	-	-	152,406	161,234
Loan costs (net of amortization)	5,090	-	-	-	5,090	5,390
Restricted cash	-	-	-	49,769	49,769	48,318
Capital assets:						
Land and improvements	82,218	-	6,500	-	88,718	88,718
Construction in process	8,500	128,573	-	-	137,073	-
Utility system	2,721,366	4,388,873	700,109	-	7,810,348	7,502,987
Equipment	292,652	298,982	244,818	-	836,452	787,785
Less: accumulated depreciation	<u>(1,485,140)</u>	<u>(3,440,077)</u>	<u>(529,855)</u>	<u>-</u>	<u>(5,455,072)</u>	<u>(5,229,287)</u>
Total capital assets	<u>1,619,596</u>	<u>1,376,351</u>	<u>421,572</u>	<u>-</u>	<u>3,417,519</u>	<u>3,150,203</u>
Total non-current assets	<u>1,624,686</u>	<u>1,528,757</u>	<u>421,572</u>	<u>49,769</u>	<u>3,624,784</u>	<u>3,365,145</u>
Total assets	<u>1,673,688</u>	<u>2,284,802</u>	<u>730,435</u>	<u>56,917</u>	<u>4,745,842</u>	<u>4,794,000</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	21,954	137,335	20,151	-	179,440	144,675
Accrued interest payable	5,525	-	-	-	5,525	279
Interfund balances	17,786	(17,786)	-	-	-	-
Meter deposits	-	-	-	37,940	37,940	42,167
Notes payable	28,000	-	-	-	28,000	28,000
Total current liabilities	<u>73,265</u>	<u>119,549</u>	<u>20,151</u>	<u>37,940</u>	<u>250,905</u>	<u>215,121</u>
Non-current liabilities:						
Notes payable	582,000	-	-	-	582,000	560,000
Total non-current liabilities	<u>582,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>582,000</u>	<u>560,000</u>
Total liabilities	<u>655,265</u>	<u>119,549</u>	<u>20,151</u>	<u>37,940</u>	<u>832,905</u>	<u>775,121</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,489,596	1,376,351	421,572	-	3,287,519	3,070,203
Restricted for debt service	-	-	-	11,829	11,829	6,151
Unrestricted	(471,173)	788,902	288,712	7,148	613,589	942,525
Total net assets	<u>\$ 1,018,423</u>	<u>\$ 2,165,253</u>	<u>\$ 710,284</u>	<u>\$ 18,977</u>	<u>\$ 3,912,937</u>	<u>\$ 4,018,879</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2012**  
**(With Comparative Totals For June 30, 2011)**

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2012</u>	<u>Total 2011</u>
<b>Operating revenues:</b>						
Charges for services	\$ 272,312	\$ 1,245,278	\$ 546,792	\$ -	\$ 2,064,382	\$ 1,995,917
Total operating revenues	<u>272,312</u>	<u>1,245,278</u>	<u>546,792</u>	<u>-</u>	<u>2,064,382</u>	<u>1,995,917</u>
<b>Operating expenses:</b>						
Personal services	71,398	177,364	180,682	-	429,444	356,242
Contractual services	2,925	51,762	14,136	-	68,823	24,861
Utilities	22,075	10,462	1,258	-	33,795	27,515
Repairs and maintenance	27,301	32,338	9,449	-	69,088	52,737
Other supplies and expenses	41,410	864,857	364,297	-	1,270,564	1,318,253
Insurance claims and expenses	13,134	33,876	26,871	-	73,881	73,363
Depreciation	100,662	103,468	21,655	-	225,785	229,630
Total operating expenses	<u>278,905</u>	<u>1,274,127</u>	<u>618,348</u>	<u>-</u>	<u>2,171,380</u>	<u>2,082,601</u>
Operating income (loss)	<u>(6,593)</u>	<u>(28,849)</u>	<u>(71,556)</u>	<u>-</u>	<u>(106,998)</u>	<u>(86,684)</u>
<b>Non-operating revenues (expenses):</b>						
Interest and investment revenue	333	4,994	2,974	447	8,748	16,238
Interest expense	-	-	-	(5,637)	(5,637)	(3,400)
Donations	-	(5,000)	(5,000)	-	(10,000)	-
Miscellaneous expenses	(300)	-	-	(1,270)	(1,570)	(1,640)
Total non-operating revenue (expenses)	<u>33</u>	<u>(6)</u>	<u>(2,026)</u>	<u>(6,460)</u>	<u>(8,459)</u>	<u>11,198</u>
Income (loss) before transfers	<u>(6,560)</u>	<u>(28,855)</u>	<u>(73,582)</u>	<u>(6,460)</u>	<u>(115,457)</u>	<u>(75,486)</u>
Transfers in	28,000	-	40,245	12,516	80,761	62,062
Transfers out	<u>(11,246)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>(71,246)</u>	<u>(76,000)</u>
Change in net assets	10,194	(58,855)	(63,337)	6,056	(105,942)	(89,424)
Total net assets - beginning	<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>
Total net assets - ending	<u>\$ 1,018,423</u>	<u>\$ 2,165,253</u>	<u>\$ 710,284</u>	<u>\$ 18,977</u>	<u>\$ 3,912,937</u>	<u>\$ 4,018,879</u>

**Municipal Utilities of the City of Remsen**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2012**  
**(With Comparative Totals For June 30, 2011)**

	Water Utility	Electric Utility	Gas Utility	Other Enterprise Funds	Total 2012	Total 2011
<b>Cash flows from operating activities:</b>						
Cash received from (paid to) customers	\$ 268,259	\$ 1,244,943	\$ 556,327	\$ (4,227)	\$ 2,065,302	\$ 2,011,914
Cash payments to suppliers for goods and services	(103,147)	(1,017,383)	(427,788)	-	(1,548,318)	(1,479,804)
Cash payments to employees	(71,398)	(177,364)	(180,682)	-	(429,444)	(356,242)
Net cash provided (used) by operating activities	<u>93,714</u>	<u>50,196</u>	<u>(52,143)</u>	<u>(4,227)</u>	<u>87,540</u>	<u>175,868</u>
<b>Cash flows from non-capital financing activities:</b>						
Receipts under interfund loans	17,786	86,057	-	-	103,843	183,872
Payments under interfund loans	(86,057)	(17,786)	-	-	(103,843)	(183,872)
Payments to other entities	-	(5,000)	(5,000)	-	(10,000)	-
Transfers to other funds	(6,000)	-	-	-	(6,000)	(6,000)
Transfers from other funds	-	-	-	6,000	6,000	6,000
Transfers from City of Remsen	28,000	-	40,245	1,270	69,515	56,062
Transfers to City of Remsen	-	(30,000)	(30,000)	-	(60,000)	(70,000)
Net cash provided (used) by non-capital financing activities	<u>(46,271)</u>	<u>33,271</u>	<u>5,245</u>	<u>7,270</u>	<u>(485)</u>	<u>(13,938)</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds of bond obligations	50,000	-	-	-	50,000	-
Principal payments under bond obligations	(28,000)	-	-	-	(28,000)	(27,886)
Interest payments and other costs under bond obligations	-	-	-	(1,661)	(1,661)	(4,740)
Purchases of capital assets	(69,777)	(362,792)	(12,715)	-	(445,284)	(288,330)
Net cash provided (used) by capital and related financing activities	<u>(47,777)</u>	<u>(362,792)</u>	<u>(12,715)</u>	<u>(1,661)</u>	<u>(424,945)</u>	<u>(320,956)</u>
<b>Cash flows from investing activities:</b>						
Investment income	334	6,369	3,412	447	10,562	16,729
Investments in MBMECA	-	8,828	-	-	8,828	14,751
Net cash provided (used) by investing activities	<u>334</u>	<u>15,197</u>	<u>3,412</u>	<u>447</u>	<u>19,390</u>	<u>31,480</u>
Net increase (decrease) in cash	-	(264,128)	(56,201)	1,829	(318,500)	(127,546)
Cash and restricted cash - beginning	-	810,084	315,828	55,088	1,181,000	1,308,546
Cash and restricted cash - ending	<u>\$ -</u>	<u>\$ 545,956</u>	<u>\$ 259,627</u>	<u>\$ 56,917</u>	<u>\$ 862,500</u>	<u>\$ 1,181,000</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (6,593)	\$ (28,849)	\$ (71,556)	\$ -	\$ (106,998)	\$ (86,684)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	100,662	103,468	21,655	-	225,785	229,630
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(4,053)	(335)	9,535	-	5,147	11,428
(Increase) decrease in inventories	1,497	(25,755)	468	-	(23,790)	353
(Increase) decrease in prepaid insurance	935	1,870	1,870	-	4,675	5,922
Increase (decrease) in accounts payable	1,266	(203)	(14,115)	-	(13,052)	10,650
Increase (decrease) in meter deposits	-	-	-	(4,227)	(4,227)	4,569
Net cash provided (used) by operating activities	<u>\$ 93,714</u>	<u>\$ 50,196</u>	<u>\$ (52,143)</u>	<u>\$ (4,227)</u>	<u>\$ 87,540</u>	<u>\$ 175,868</u>
<b>Supplemental schedule of noncash investing, capital, and financing transactions:</b>						
Capital assets purchased by short-term debt (accounts payable)	<u>\$ 20,688</u>	<u>\$ 36,337</u>	<u>\$ 981</u>	<u>\$ -</u>	<u>\$ 58,006</u>	<u>\$ 10,189</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2012**

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, 2012**

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 nine 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, and business-type activities.

Cash and Cash Equivalents - For purposes of the financial statement of cash flows, the Municipal Utilities 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, 2012**

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, 2012 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, 2012, the Municipal Utilities held no cash equivalents.

Cash is composed accordingly as of June 30, 2012:

Checking accounts	\$ 194,731
Certificates of deposit	618,000
Total	<u>\$ 812,731</u>

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 \$8,828 during the current fiscal year to a June 30, 2012 balance of \$152,406.

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, 2012**

NOTE D - RESTRICTED ASSETS:

At June 30, 2012, \$11,829 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 \$37,940 of customer utility deposits at June 30, 2012. 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, 2012 is as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,718	\$ -	\$ -	\$ 88,718
Construction in process	-	137,073	-	137,073
Total capital assets not being depreciated	88,718	137,073	-	225,791
Capital assets being depreciated:				
Water utility system	2,665,618	55,748	-	2,721,366
Electric utility system	4,137,260	251,612	-	4,388,872
Gas utility system	700,110	-	-	700,110
Equipment	617,510	48,668	-	666,178
Automotive equipment	170,274	-	-	170,274
Total capital assets being depreciated	8,290,772	356,028	-	8,646,800
Less accumulated depreciation:				
Water utility system	(1,319,901)	(80,366)	-	(1,400,267)
Electric utility system	(3,121,320)	(84,724)	-	(3,206,044)
Gas utility system	(354,450)	(15,536)	-	(369,986)
Equipment	(263,878)	(45,033)	-	(308,911)
Automotive equipment	(169,738)	(126)	-	(169,864)
Total accumulated depreciation	(5,229,287)	(225,785)	-	(5,455,072)
Total net capital assets being depreciated	3,061,485	130,243	-	3,191,728
Total business-type activities capital assets, net	\$ 3,150,203	\$ 267,316	\$ -	\$ 3,417,519

Depreciation expense of \$225,785 was charged to the business-type activities function on the statement of activities.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2012**

NOTE F - INTERFUND BALANCES:

Interfund balances at June 30, 2012 consisted of \$17,786 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 customers causing the Water Utility Fund to overdraw its share of an internal pooled checking account.

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. 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, 2012, interest paid and total customer net revenues were \$391 and \$272,312, respectively. On July 13, 2011 the \$80,000 outstanding water revenue capital loan notes were refinanced with a bank line of credit.

Iowa State Bank Water Line of Credit - On July 13, 2011 the Municipal Utilities entered into a \$150,000 line of credit agreement. The line of credit bears interest at a rate of 4.25 percent and matures on July 13, 2012. The \$80,000 outstanding water revenue capital loan notes were refinanced with this line of credit and an additional \$50,000 was drawn during the current year. The outstanding line of credit balance was \$130,000 as of June 30, 2012. Subsequent to year end, this line of credit was rolled into a new agreement that bears interest at 3.75 percent and matures July 31, 2013.

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 2029. 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 11 percent of net revenues. For the year ended June 30, 2012, principal paid and total customer net revenues were \$28,000 and \$272,312, respectively. The total principal remaining to be paid on the notes is \$480,000.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2012**

NOTE G - NOTES PAYABLE (CONTINUED):

During the year ended June 30, 2012 the following changes occurred in notes payable:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Water capital loan notes	\$ 80,000	\$ -	\$ 80,000	\$ -	\$ -
Water line of credit	-	130,000	-	130,000	-
Water revenue capital loan notes	508,000	-	28,000	480,000	28,000
	<u>\$ 588,000</u>	<u>\$ 130,000</u>	<u>\$ 108,000</u>	<u>\$ 610,000</u>	<u>\$ 28,000</u>

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

Year Ending June 30,	Iowa State Bank Water Line of Credit (Refinanced July 31, 2012)		Source Water Protection Water Revenue Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ -	\$ 650	\$ 28,000	\$ -	\$ 28,000	\$ 650
2014	130,000	4,875	28,000	-	158,000	4,875
2015	-	-	28,000	-	28,000	-
2016	-	-	28,000	-	28,000	-
2017	-	-	28,000	-	28,000	-
2018-2022	-	-	140,000	-	140,000	-
2023-2027	-	-	142,000	-	142,000	-
2028-2029	-	-	58,000	-	58,000	-
	<u>\$ 130,000</u>	<u>\$ 5,525</u>	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 610,000</u>	<u>\$ 5,525</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 5.38 percent of their annual salary and the Utilities are required to contribute 8.07 percent of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$21,597, \$16,111 and \$16,696, respectively, equal to the required contribution for each year.

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2012**

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, 2012 is considered immaterial.

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 \$400 for single coverage and \$1,229 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the Municipal Utilities contributed \$73,442 and plan members eligible for benefits contributed \$5,528 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, 2012**

NOTE K - TRANSFERS:

During the year ended June 30, 2012, transfers totaling \$11,246 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 \$30,000 and \$30,000, respectively, to the City of Remsen for the payment of debt during the year ended June 30, 2012.

During the year ended June 30, 2012, transfers totaling \$40,245 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, 2012, the City of Remsen transferred \$1,270 and \$28,000 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 - COMMITMENTS:

The Municipal Utilities has entered into the following contracts to be completed after June 30, 2012.

Description	Contract	Progress Bills	Remaining Contract
Nothem street project	\$ 65,000	\$ (15,750)	\$ 49,250
Water tower cleaning and painting	42,000	-	42,000
	<u>\$ 107,000</u>	<u>\$ (15,750)</u>	<u>\$ 91,250</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Financial Statements**  
**June 30, 2012**

NOTE N - CONTINGENCY:

Subsequent to year end, a claim was filed with the Iowa Civil Rights Commission (ICRC) and the Equal Employment Opportunity Commission listing the Municipal Utilities as one of several respondents. On February 6, 2013, the ICRC issued a letter of right to sue. Should a suit be filed, the Municipal Utilities insurance carrier will provide a defense. However, the policy under which the defense is provided does not cover claims for wages and benefits. Wages and benefits are likely to be the primary components of the potential suit. As of the date these financial statements were available to be issued, no suit has been filed. It is too early to determine the likelihood of an unfavorable outcome or estimate the amount of loss.

# **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, 2012**

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
<b>Receipts:</b>				
Use of money and property	\$ 10,562	\$ 20,295	\$ 20,295	\$ (9,733)
Charges for services	2,065,302	2,990,218	2,990,218	(924,916)
Miscellaneous	-	53,550	53,550	(53,550)
	<u>2,075,864</u>	<u>3,064,063</u>	<u>3,064,063</u>	<u>(988,199)</u>
<b>Disbursements:</b>				
Business-type activities	<u>2,453,879</u>	<u>3,115,259</u>	<u>3,625,859</u>	<u>1,171,980</u>
Deficiency of receipts under disbursements	(378,015)	(51,196)	(561,796)	<u>\$ 183,781</u>
<b>Other financing sources (uses):</b>				
Proceeds from debt	50,000	-	-	
Transfers in	80,761	12,480	-	
Transfers out	<u>(71,246)</u>	<u>(12,480)</u>	<u>-</u>	
	<u>59,515</u>	<u>-</u>	<u>-</u>	
Deficiency of receipts and other financing sources under disbursements	(318,500)	(51,196)	(561,796)	
Cash balance - beginning	<u>1,181,000</u>	<u>1,733,139</u>	<u>1,733,139</u>	
Cash balance - ending	<u>\$ 862,500</u>	<u>\$ 1,681,943</u>	<u>\$ 1,171,343</u>	

**Municipal Utilities of the City of Remsen  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 For the Year Ended June 30, 2012**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,075,864	\$ (2,734)	\$ 2,073,130
Expenses	(2,453,879)	265,292	(2,188,587)
Other financing sources (uses)	59,515	(50,000)	9,515
Net	(318,500)	212,558	(105,942)
Net assets - beginning	1,181,000	2,837,879	4,018,879
Net assets - ending	<u>\$ 862,500</u>	<u>\$ 3,050,437</u>	<u>\$ 3,912,937</u>

**Municipal Utilities of the City of Remsen**  
**Notes to Required Supplementary Information -**  
**Budgetary Reporting**  
**June 30, 2012**

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 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 service, capital projects, and business-type activities. 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 function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased business-type activity disbursements by \$510,600 and budgeted \$12,480 of transfers in and out. The budget amendment is reflected in the final budgeted amounts.

# **SUPPLEMENTARY INFORMATION**

**Municipal Utilities of the City of Remsen**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2012**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash	\$ -	\$ 7,148	\$ 7,148
Restricted assets:			
Cash	11,829	37,940	49,769
Total assets	11,829	45,088	56,917
<b>Liabilities:</b>			
Current liabilities:			
Meter deposits	-	37,940	37,940
Total liabilities	-	37,940	37,940
<b>Net assets:</b>			
Restricted for debt service	11,829	-	11,829
Unrestricted	-	7,148	7,148
Total net assets	\$ 11,829	\$ 7,148	\$ 18,977

**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, 2012**

	<b>Water Reserve</b>	<b>Meter Deposits</b>	<b>Total</b>
<b>Non-operating revenues (expenses):</b>			
Interest and investment revenue	\$ 69	\$ 378	\$ 447
Interest expense	(5,637)	-	(5,637)
Miscellaneous expenses	(1,270)	-	(1,270)
Total non-operating revenue (expenses)	(6,838)	378	(6,460)
Transfers in	12,516	-	12,516
Change in net assets	5,678	378	6,056
Total net assets - beginning	6,151	6,770	12,921
Total net assets - ending	\$ 11,829	\$ 7,148	\$ 18,977

**Municipal Utilities of the City of Remsen**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2012**

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from (paid to) customers	\$ -	\$ (4,227)	\$ (4,227)
Net cash used for operating activities	<u>-</u>	<u>(4,227)</u>	<u>(4,227)</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfers from other funds	6,000	-	6,000
Transfers from the City of Remsen	1,270	-	1,270
Net cash provided by financing activities	<u>7,270</u>	<u>-</u>	<u>7,270</u>
<b>Cash flows from capital and related financing activities:</b>			
Interest payments and other costs under bond obligations	(1,661)	-	(1,661)
Net cash used for capital and related financing activities	<u>(1,661)</u>	<u>-</u>	<u>(1,661)</u>
<b>Cash flows from investing activities:</b>			
Investment income	69	378	447
Net cash provided by investing activities	<u>69</u>	<u>378</u>	<u>447</u>
Net increase (decrease) in cash	5,678	(3,849)	1,829
Cash and restricted cash - beginning	6,151	48,937	55,088
Cash and restricted cash - ending	<u>\$ 11,829</u>	<u>\$ 45,088</u>	<u>\$ 56,917</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:			
Decrease in meter deposits	-	(4,227)	(4,227)
Net cash used for operating activities	<u>\$ -</u>	<u>\$ (4,227)</u>	<u>\$ (4,227)</u>

**Municipal Utilities of the City of Remsen  
Bond and Note Maturities  
June 30, 2012**

<b>Revenue Notes</b>					
<b>Year Ending</b>	<b>Iowa State Bank Water Line of Credit July 31, 2012</b>		<b>Source Water Protection Water Revenue Capital Loan Notes July 1, 2009</b>		<b>Total</b>
	<b>Interest Rates</b>	<b>Amount</b>	<b>Interest Rates</b>	<b>Amount</b>	
2013	3.75%	\$ -	0.00%	\$ 28,000	\$ 28,000
2014	3.75%	130,000	0.00%	28,000	158,000
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>\$ 130,000</u>		<u>\$ 480,000</u>	<u>\$ 610,000</u>

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

2012

2011

RESIDENTIAL SERVICE

First 50 KWH -	\$0.0975 per KWH	First 50 KWH -	\$0.090 per KWH
Next 150 KWH -	\$0.0825 per KWH	Next 150 KWH -	\$0.075 per KWH
Over 200 KWH -	\$0.0725 per KWH	Over 200 KWH -	\$0.065 per KWH
Minimum charge -	\$4.88 per month	Minimum charge -	\$4.50 per month

COMMERCIAL SERVICE AND POWER

First 100 KWH -	\$0.0975 per KWH	First 100 KWH -	\$0.090 per KWH
Next 400 KWH -	\$0.0825 per KWH	Next 400 KWH -	\$0.075 per KWH
Next 500 KWH -	\$0.0775 per KWH	Next 500 KWH -	\$0.070 per KWH
Over 1,000 KWH -	\$0.0725 per KWH	Over 1,000 KWH -	\$0.065 per KWH
Minimum charge -	\$9.75 per month	Minimum charge -	\$9.00 per month
Demand charge -	\$3.00 per KWH plus \$0.0675 per KWH used	Demand charge -	\$3.00 per KWH plus \$0.060 per KWH used
Minimum demand charge -	\$5.00 per month	Minimum demand charge -	\$4.25 per month

ELECTRIC CUSTOMERS

Residential Customers - 686  
Commercial Customers - 226

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

2012

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2011

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RESIDENTIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$8.00  
Next 14,000 gallons - \$3.75 per M gallons  
Over 15,000 gallons - \$3.50 per M gallons  
Minimum charge - \$8.00 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 - \$9.00  
Next 5,000 gallons - \$3.75 per M gallons  
Over 6,000 gallons - \$3.50 per M gallons  
Minimum charge - \$9.00

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 - 656  
Commercial Customers - 117

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

2012

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2011

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RESIDENTIAL AND COMMERCIAL

All CF - \$7.97 per MCF  
Minimum charge - \$7.97 per month

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

GAS CUSTOMERS

Residential Customers - 615  
Commercial Customers - 106



**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, 2012, which collectively comprise the Municipal Utilities' basic financial statements and have issued our report thereon dated March 13, 2013. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 and other deficiencies that we consider to be significant deficiencies.



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-12 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, 2012 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.

Sioux City, Iowa  
March 13, 2013

A handwritten signature in black ink that reads "King Reinisch Rosser, E. Co. L.L.C." The signature is written in a cursive, flowing style.

**Municipal Utilities of the City of Remsen  
Schedule of Findings and Responses  
For the Year Ended June 30, 2012**

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

I-A-12 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* - There have been no changes in the Municipal Utilities' procedures. A cost/benefit analysis reflects that the Trustees continue with the current contractual agreement that the CPA firm draft our financial statements.

I-B-12 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, 2012**  
**(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-12 Reconciliation of Utility Billings, Collections, and Delinquencies:

*Criteria* - Utility billings, collections and delinquent accounts should be reconciled throughout the year to ensure accuracy of accounts receivable subsidiary ledgers.

*Condition and Effect* - Utility billings, collections and delinquent accounts 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* - New utility software was purchased that has the capability of providing a reconciliation. Subsequent to year end, a monthly reconciliation procedure has been implemented.

Part II: Other Findings Related to Required Statutory Reporting

II-A-12 *Certified Budget* - We noted no instances of noncompliance.

II-B-12 *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-12 *Travel Expense* - No disbursements of public funds 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, 2012  
(Continued)**

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

II-D-12 *Business Transactions* - No business transactions between the Municipal Utilities and the Trustees or employees were noted.

II-E-12 *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-12 *Board of Trustees Minutes* - We tested three Trustee meeting minutes for proper publication as required by Chapter 372.13(6) of the Code of Iowa. One of the meeting minutes selected was not published and the other two minutes selected were published but not within fifteen days. In addition, one of the three meeting minutes tested was not signed as required by the Code of Iowa.

*Recommendation* - The Municipal Utilities should comply with Chapter 21 of the Code of Iowa and should publish and sign the minutes as required.

*Response* - The role of compiling and publishing the minutes has been reassigned to a different employee and the minutes will be signed and published in a timely manner.

II-G-12 *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 Municipal Utilities investment policy.

II-H-12 *Water Revenue Capital Loan Notes* - No instances of noncompliance with the revenue note resolutions were noted.