

LA PORTE CITY UTILITIES

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

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La Porte City Utilities

Board of Trustees

(Before January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Barz	Trustee - Chairman	September 2019
Tami Keune	Trustee – Secretary	September 2017
Dave Neil	Trustee	September 2015
Kathy Strubel	Office Manager	Indefinite

(After January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Barz	Trustee - Chairman	September 2019
Tami Keune	Trustee – Secretary	September 2017
Dave Neil	Trustee	September 2015
Shawn Mehlert	Trustee	September 2015
Kathy Strubel	Office Manager	Indefinite



Donald A. Weber, C.P.A.
David L. Fox, C.P.A.
Dana J. Elliott, C.P.A.

641 Young Street
Jesup, IA 50648
(319)827-6600
Fax (319)827-2121
rfsw.com

Independent Auditor's Report

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material

respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise La Porte City Utilities' basic financial statements. We previously audited in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 10 and 24 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2014 on our consideration of the La Porte City Utilities' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering ^{Ridihalgh, Fuelling, Snitker, Weber & Co. P.C.} La Porte City Utilities' internal control over financial reporting and compliance.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

October 9, 2014

LA PORTE CITY UTILITIES

403 Main Street, La Porte City, Iowa 50651
Phone: (319) 342-3139
Fax: (319) 342-3160
Email: lpcutil@lpctel.net

MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City 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, 2014. It is to be used in conjunction with the Utilities Annual Report, which follow.

BASIS OF ACCOUNTING

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

Basic Financial Statements

- **Cash Basis Statement of Activities and Net Position** (Exhibit A)
Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)
Presents the Utilities operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position**(Exhibit C)
Reconciles any differences between Exhibit A and Exhibit B

Notes to the Financial Statements

- Provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information

- Further explains and supports the financial statements with a comparison of the Utilities budget for the year.

Other Supplementary Information

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)
Presents the non-major funds in more detail that were lumped together in Exhibit B.
- **Schedule of Indebtedness** (Schedule 2)
Presents detailed information on outstanding debts incurred by the Utilities.

- **Bond and Note Maturities** (Schedule 3)
Summarized bond repayment schedule
- **Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds** (Schedule 4)
Provides a multi-year comparison of the Utilities revenues and disbursements as a whole.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

BASIC FINANCIAL STATEMENTS

- **Cash Basis Statement of Activities and Net Position** (Exhibit A)

The first section of the statement presents the major **Functions/Programs**. For the Utilities, those are the Electric Fund, Water Fund, Debt Service Fund, Capital Improvement Reserve Fund, and the Diesel Engine Reserve 2013 Fund. The *Disbursements* are listed in the first column with *Charges for Service* and *Restricted Interest* revenues from each program to the right. The result is a Net (Expense)/Revenue. This is to determine the extent to which the programs support themselves.

The next section is the **General Receipts**. It shows the *Bond Proceeds*, *Unrestricted Interest*, *Miscellaneous Revenues*, and *Transfers*. These revenues are not listed above because they are not generated from the direct operation of the program.

Adding the *Business Type Activities Total* with the *Total General Receipts and Transfers* equals the *Change in Cash Basis Net Position* or the total increase/(decrease) in net position for the Utilities for the year. For the fiscal year ending June 30, 2014, the change in net position was an increase of \$267,774. Add that amount to the *Beginning Net Position* balance of \$1,512,035 gives us a new *Cash Basis Net Position – End of Year* balance of \$1,779,809.

The final section of this report shows that the *Cash Basis Net Position* consist of \$129,134 in restricted expendable funds, and \$1,650,675 in unrestricted funds. The restricted funds are required to be established by Bond Covenants or State Law, the assigned funds are established by the Board to help it control and manage money for particular purposes and the unrestricted funds are spendable funds not contained in the other categories.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The major funds the Utilities maintain are the Electric and Water fund, as well as the Debt Service Fund, Capital Improvement Reserve Fund, and the Diesel Engine 2013 Reserve Fund. All other funds are lumped together as Non-Major funds for the purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds (Schedule 1).

Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the *Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements*. This gives us the Net Operating Revenue (Loss) for each fund. After adding in the Bond Proceeds and subtracting out the Debt Service disbursements, and Operating Transfers we come to the *Change in Cash Balances* for each fund. This is the Net "Profit/ (Loss)" for each of the funds

After adding the *Change in Cash Balances* to the *Cash Beginning Balances*, we have the new *Cash Ending Balance* for each of the funds.

The statement then also breaks down the *Cash Ending Balances* by Restricted, Assigned and Unrestricted.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Position (Exhibit C)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

FINANCIAL HIGHLIGHTS

- The total revenues for all departments were \$3,885,095. This is an increase of \$232,702. or approximately 6.37% increase from the previous year's revenues.

The total disbursements for all departments were \$3,617,321. The increase is \$239,822. or Approximately 6.63 % from the previous year's total expenses.

Projects: A new water main has been installed from the Bluff Street down Hillcrest St to Barberry St. The old water tower has been demolished. This project was completed in 2014. Numerous breakages of water mains and valves (due to the age of the infrastructure) have been repaired and/or replaced.

- Revenues exceeded expenses resulting in net position of \$267,774. This is decreased compared to net position from the previous year of \$276,771. The ending fund balance on June 30, 2014 was \$1,779,809.
- According to our Bond Covenant, our Net Operating Revenues (Receipts less Operating Disbursements) for the electric department must be at least 120% of the year's scheduled Bond Payment. The Bond payment paid for FY2014 was \$135,000. This means we must have Net Operating Revenues of \$162,000. Since our revenues exceeded our expenses in the Electric Fund by \$298,091, we made our bond test easily. The electric rate increase implemented in June 2010 was designed to make sure we were able to meet this test.

	Year Ended June 30, 2014		\$ Difference
	2014	2013	
Program Receipts:			
Charges for Service:			
Electric	\$2,019,747	\$1,914,245	\$105,502
Water	559,779	565,908	(6,129)
Restricted Interest	1,929	1,457	472
General Receipts:			
Assigned Interest	0	0	0
Unassigned Interest	1,405	1,387	18
Miscellaneous	75,419	47,446	27,973
Proceeds of Long Term Debt	1,226,816	1,121,950	104,866
Total Receipts	<u>\$3,885,095</u>	<u>\$3,652,393</u>	<u>\$232,702</u>
Disbursements:			
Operating Disbursements:			
Electric	\$1,789,957	\$1,611,440	\$178,517
Water	454,853	278,662	176,191
Cap Projects		1,121,950	
Debt Service	405,161	365,445	39,716
Diesel Engine 2013	840,534		
Non Major Funds	126,816		
Total Disbursements	<u>\$3,617,321</u>	<u>\$3,377,497</u>	<u>\$239,824</u>
Increase (Decrease) in Cash Balance	\$267,774	\$276,771	
Cash Basis Net Position Beginning of Year	1,512,035	1,235,264	
Cash Basis Net Position End of Year	\$1,779,809	\$1,512,035	

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in May 21, 2014. The amendment allowed for the following changes:

Electric department

Revenue:

- Revenues remained fairly consistent to what was budgeted. Miscellaneous was inflated due to a retired employee paying insurance for herself. Also scrap metal from tearing down the old generator was put into miscellaneous.

Expenses:

- Increased slightly due to the purchase of purchasing supplies to tear down the old generator. Supplies for the Co-op project was also purchased. Bond transfer was increased also due to the fact when originally budgeted there was no estimate available on the transfer amount.

Water department

Revenue:

- Revenues remained fairly consistent to what was budgeted. Miscellaneous was increased due to water usage consumption by Central Cable.

Expenses:

- Communication expense increased due to telephone service being added at the plant. Also increased inter-department expense due to additional electricity at the well and plant.
- Maintenance on pump equipment was increased due to locating lost pump. Maintenance for water tower increased due to regulatory inspection by the DNR.
- Plant Operation increased due to additional salt and chemicals.
- Debt Service Fund increased Transfer in and Expenditure for payment of Principal and Interest on Water Project Loan.

DEBT ADMINISTRATION

As of June 30, 2014 the Utilities had an obligation of \$4,228,370 in Revenue Bonds and Water Loan outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000 and reissued in May, 2008 for \$885,000 to take advantage of lower interest rates. The 2008 Series bonds are scheduled to mature in 2015. The Utilities has also approved for a \$1,100,000 Electric Revenue Capital Loan Notes Series 2013, we will be paying interest only of this loan till the Series 2008 loan matures and is paid off in 2015. Balance of this loan is \$1,100,000. The State Revolving Loan Fund for a Capital Improvement Water System Project final amount is \$3,000,000, (D0179R) the project has been completed in 2014. The second State Revolving Loan for the Water Project, (D0245R) Final loan amount for \$377,425.55. Combined balance due as of June 30, 2014 \$2,988,370.

NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members consider many factors when setting the Fiscal Year 2015 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 120% of that year's scheduled Bond Payment. At the time of budgeting, the bond payment due in 2014 is \$140,000. That means we are required to have Net Operating Revenues in the Electric Department of at least \$168,000. As of the 2014 audited year, we show sufficient revenues to be able to make this test.
- The remaining items were budgeted fairly consistent compared to those of the 2014 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2015 budget.

CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Strubel, La Porte City Utilities Office Manager, 403 Main Street, La Porte City, Iowa.

La Porte City Utilities

Basic Financial Statements

La Porte City Utilities

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Business Type Activities Total
Functions / Programs:				
Business type activities:				
Electric	\$ 1,789,957	2,019,747	-	229,790
Water	454,853	559,779	-	104,926
Capital Improvement Reserve	-	-	1,115	1,115
Debt Service	405,161	-	-	(405,161)
Diesel Engine Reserve 2013	840,534	-	50	(840,484)
Non-major funds	126,816	-	764	(126,052)
Total business type activities	3,617,321	2,579,526	1,929	(1,035,866)
General Receipts:				
Loan proceeds				1,226,816
Unrestricted interest on investments				1,405
Miscellaneous				75,419
Transfers				-
Total general receipts and transfers				1,303,640
Change in cash basis net position				267,774
Cash basis net position beginning of year				1,512,035
Cash basis net position end of year				\$ 1,779,809
Cash Basis Net Position				
Restricted:				
Expendable:				\$ 493,566
Unrestricted				1,286,243
Total cash basis net position				\$ 1,779,809

See notes to financial statements

La Porte City Utilities
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2014

	Proprietary Funds						Total
	Electric	Water	Capital Improv Reserve	Debt Service	Diesel Engine 2013	Other Nonmajor Proprietary Funds	
Operating receipts:							
Use of money and property	\$ 249	1,156	1,115	-	50	764	3,334
Charges for service	2,019,747	559,779	-	-	-	-	2,579,526
Miscellaneous	68,052	7,367	-	-	-	-	75,419
Total operating receipts	2,088,048	568,302	1,115	-	50	764	2,658,279
Operating disbursements:							
Business type activities	1,789,957	454,853	-	405,161	840,534	126,816	3,617,321
Total operating disbursements	1,789,957	454,853	-	405,161	840,534	126,816	3,617,321
Excess (deficiency) of operating receipts over (under) operating disbursements	298,091	113,449	1,115	(405,161)	(840,484)	(126,052)	(959,042)
Non-operating receipts (disbursements):							
Loan proceeds	-	-	-	-	1,100,000	126,816	1,226,816
Debt service	-	-	-	-	-	-	-
Total non-operating receipts (disbursements)	-	-	-	-	1,100,000	126,816	1,226,816
Excess (deficiency) of receipts over (under) disbursements	298,091	113,449	1,115	(405,161)	259,516	764	267,774
Operating transfers in/(out)	60,774	(243,923)	23,591	405,161	(245,603)	-	-
Change in cash balances	358,865	(130,474)	24,706	-	13,913	764	267,774
Cash balances beginning of year	455,082	602,770	339,726	-	-	114,457	1,512,035
Cash balances end of year	\$ 813,947	472,296	364,432	-	13,913	115,221	1,779,809
Cash Basis Fund Balances							
Restricted for:							
Debt service	\$ -	-	-	-	-	105,342	105,342
Other purposes	-	-	364,432	-	13,913	9,879	388,224
Unrestricted	813,947	472,296	-	-	-	-	1,286,243
Total cash basis fund balances	\$ 813,947	472,296	364,432	-	13,913	115,221	1,779,809

See notes to financial statements

La Porte City Utilities

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Proprietary Funds

As of and for the year ended June 30, 2014

Total proprietary funds cash balances (page 14)	\$ 1,779,809
The utility does not have an internal service fund. Therefore there are no reconciling items.	-
Cash basis net position of business type activities (page 13)	\$ 1,779,809
Change in cash balances (page 14)	\$ 267,774
The utility does not have an internal service fund. Therefore there are no reconciling items.	-
Change in cash basis net position of business type activities (page 13)	\$ 267,774

See notes to financial statements

La Porte City Utilities

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the Utility's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the Utility.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements – Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor proprietary funds.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

The Water Fund accounts for the operation and maintenance of the Utility's water system.

The Capital Improvement Reserve Fund acts as a reserve fund for future capital improvements.

The Debt Service Fund accounts for the principal and interest payments made for the Utility's Revenue Bonds and Capital Loan Notes.

The Diesel Engine 2013 Fund is a fund established to account for the acquisition and maintenance of the generator purchased and installed in 2013.

C. Measurement Focus and Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2014 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 Utility 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 Board

of Trustees; 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.

The Utility held investments in a credit union which are valued at \$36,983 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$49,800 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Revenue Bonds and Loans Payable

Annual debt service requirements to maturity for the Electric Revenue Capital Loan Notes are as follows:

Year Ending June 30,	Utility Revenue Bond	
	Principal	Interest
2015	140,000	5,320
Total	\$ 140,000	5,320

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

On August 25, 2010 the Utility was awarded Water Revenue Capital Loan Notes, Series 2010 through the Iowa State Revolving Fund Loan Program. The Utility was authorized to disburse up to \$3,000,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2014 a total of \$3,000,000 had been disbursed from the Loan Notes. Principal payments of \$116,000 and \$83,370 of interest payments were made during the year.

Year Ending June 30,	Water Revenue Capital Loan Note, 2010	
	Principal	Interest
2015	120,000	79,890
2016	124,000	76,290
2017	128,000	72,570
2018	132,000	68,730
2019	136,000	64,770
2020-2031	2,023,000	417,330
Total	<u>\$ 2,663,000</u>	<u>779,580</u>

On July 11, 2012 the Utility was awarded Water Revenue Capital Loan Notes, Series 2012 through the Iowa State Revolving Fund Loan Program. The Utility was authorized to disburse up to \$600,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2014 a total of \$375,370 had been disbursed from the Loan Notes. Principal payments of \$25,000 and \$5,296 of interest payments were made during the year. A preliminary loan amortization payoff schedule has been created and will change as more funds are disbursed.

On July 10, 2013 the Utility was awarded Electric Revenue Capital Loan Notes, Series 2013. The Utility was authorized to disburse up to \$1,100,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2014 a total of \$1,100,000 had been disbursed from the Loan Notes. No principal payments were made and \$20,923 of interest payments were made during the year.

Year Ending June 30,	Electric Revenue Capital Loan Note, 2013	
	Principal	Interest
2015		23,465
2016	130,000	23,465
2017	130,000	21,840
2018	130,000	19,890
2019	135,000	17,615
2020-2023	575,000	39,295
Total	<u>\$ 1,100,000</u>	<u>145,570</u>

(4) Pension and Retirement Benefits

The 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 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 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$27,703, \$24,932, and \$22,645, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a single-employer benefit plan which provides medical/prescription drug benefits for employees and retirees. There are 5 active and 1 retired members in the plan. Participants must be age 55 or older at retirement to be eligible.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the full cost of the premium for the medical/prescription drug benefits.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility pays for 100% of the monthly premiums for active employees. For the year ended June 30, 2014, the Utility paid \$72,486 on behalf of active employees and \$9,722 for the retired employee, which was reimbursed to the Utility from the retired employee.

(6) Compensated Absences

Utility 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 Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2014, primarily relating to the Electric and Water Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,114
Sick leave	15,814
Total	<u>\$ 27,928</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Electric	\$ 167,238
Debt Service	Water	237,923
Capital Improvement Reserve	Electric	50,000
Capital Improvement Reserve	Water	6,000
Capital Improvement Reserve	Diesel Engine 2013	140,113
Electric	Capital Improvement Reserve	172,522
Electric	Diesel Engine 2013	105,490

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Lease Purchase Agreements

The Utility had no lease agreements as of June 30, 2014.

(9) Related Party Transactions

The Utility had no related part transactions during the year ended June 30, 2014.

(10) Risk Management

The 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 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.

(11) Deficit Balance

There were no deficit fund balances at June 30, 2014.

(12) Litigation

As of June 30, 2014 there was no pending litigation.

(13) Contracts and Commitments

At June 30, 2014 the Utility had outstanding contracts with Eastern Iowa Excavating and Concrete for \$3,871 for the Hillcrest Water Main Replacement project. The Utility also has an outstanding contract with the Iowa Department of Transportation for \$375,000 on an old Commercial Street project.

(14) Subsequent Events

The Utility entered into a lease with Ditch Witch Financial Services on July 17, 2014 for a boring machine and trailer. The lease is for 48 months with a monthly payment of \$3,405. At the end of the lease term there is a purchase option of \$1.

(15) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

La Porte City Utilities

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Proprietary Funds

Other Information

Year ended June 30, 2014

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 3,334	6,375	6,800	(3,466)
Charges for service	2,579,526	2,373,163	2,403,318	176,208
Miscellaneous	75,419	129,850	161,850	(86,431)
Total receipts	<u>2,658,279</u>	<u>2,509,388</u>	<u>2,571,968</u>	<u>86,311</u>
Disbursements:				
Business type activities	<u>3,617,321</u>	<u>2,698,299</u>	<u>3,845,698</u>	<u>228,377</u>
Total disbursements	<u>3,617,321</u>	<u>2,698,299</u>	<u>3,845,698</u>	<u>228,377</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(959,042)	(188,911)	(1,273,730)	314,688
Other financing sources (uses), net	<u>1,226,816</u>	<u>5,000</u>	<u>1,217,871</u>	<u>8,945</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	267,774	(183,911)	(55,859)	323,633
Balances beginning of year	<u>1,512,035</u>	<u>1,587,955</u>	<u>1,512,035</u>	-
Balances end of year	<u>\$ 1,779,809</u>	<u>1,404,044</u>	<u>1,456,176</u>	<u>323,633</u>

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Other Information – Budgetary Reporting

June 30, 2014

The budgetary comparison is presented with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees 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.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Enterprise 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 budgeted revenues by \$62,580 and increased budgeted disbursements by \$1,147,399. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

Supplementary Information

La Porte City Utilities

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2014

	Proprietary Funds			
	Meter Deposits	Water System Capital Project	Diesel Engine Reserve	Total
Receipts:				
Use of money and property	\$ 1	-	763	764
Total receipts	1	-	763	764
Disbursements:				
Business type activities	-	126,816	-	126,816
Total disbursements	-	126,816	-	126,816
Excess (deficiency) of receipts over (under) disbursements	1		763	(126,052)
Other financing sources:				
Loan Proceeds	-	126,816	-	126,816
Operating transfers in/(out)	-	-	-	-
Change in cash balances	1	-	763	764
Cash balances beginning of year	9,878	-	104,579	114,457
Cash balances end of year	\$ 9,879	-	105,342	115,221
Cash Basis Fund Balances				
Restricted	\$ 9,879	-	105,342	115,221
Unrestricted	-	-	-	-
Total cash basis fund balances	\$ 9,879	-	105,342	115,221

See accompanying independent auditor's report

La Porte City Utilities
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Utility Revenue Notes - Electric fund	May 1, 2008	3.0 - 3.8%	885,000
State Revolving Loan - Water Revenue Capital Loan Notes	August 25, 2010	3%	3,000,000
Water Revenue Capital Loan Notes	July 11, 2012	2%	600,000
Electric Revenue Capital Loan Notes	July 10, 2013	1.25% - 2.9%	1,100,000

See accompanying independent auditor's report

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 275,000	-	135,000	140,000	10,315	-
2,779,000	-	116,000	2,663,000	83,370	-
223,554	126,816	25,000	325,370	5,296	-
-	1,100,000	-	1,100,000	20,923	-
<u>\$ 3,277,554</u>	<u>\$ 1,226,816</u>	<u>\$ 276,000</u>	<u>\$ 4,228,370</u>	<u>119,904</u>	<u>-</u>

Schedule 3

La Porte City Utilities

Bond Maturities

June 30, 2014

Year Ending June 30,	Utility Revenue Bonds		Water Revenue Capital	
	Electric		Loan Notes, Series 2010	
	Issued May 1, 2008		Issued August 25, 2010	
	Interest Rates	Amount	Interest Rates	Amount
2015	3.80%	140,000	3.00%	120,000
2016		-	3.00%	124,000
2017		-	3.00%	128,000
2018		-	3.00%	132,000
2019		-	3.00%	136,000
2020-2031		-	3.00%	2,023,000
		<u>\$ 140,000</u>		<u>\$ 2,663,000</u>

Year Ending June 30,	Water Revenue Capital		Electric Revenue Capital	
	Loan Notes, Series 2012		Loan Notes, Series 2013	
	Issued July 11, 2012		Issued July 10, 2013	
	Interest Rates	Amount	Interest Rates	Amount
2015	1.75%	13,370		-
2016	1.75%	16,000	1.25%	130,000
2017	1.75%	16,000	1.50%	130,000
2018	1.75%	16,000	1.75%	130,000
2019	1.75%	16,000	2.00%	135,000
2020-2031		248,000	2.25-2.9%	575,000
		<u>\$ 325,370</u>		<u>\$ 1,100,000</u>

See accompanying independent auditor's report. Also see Note 3 regarding the payoff for the Water Revenue Capital Loan Notes, Series 2013.

La Porte City Utilities
 Schedule of Receipts by Source and Disbursements By Function
 All Proprietary Funds
 For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Use of money and property	\$ 3,334	\$ 4,720	3,979	4,230	9,628	22,920	39,959	47,018	23,236	15,113
Charges for service	2,579,526	2,480,153	2,404,707	2,492,561	1,774,921	1,653,284	1,699,041	1,638,317	1,531,128	1,383,209
Miscellaneous	75,419	47,446	37,445	806,696	100,511	83,983	143,393	85,755	80,284	75,614
Loan proceeds	1,226,816	1,121,950	1,150,972	734,703	153,028	54,900	881,080	-	-	-
Total	\$ 3,885,095	\$ 3,654,269	3,597,103	4,038,190	2,038,088	1,815,087	2,763,473	1,771,090	1,634,648	1,473,936
Disbursements:										
Business-type	\$ 3,617,321	\$ 3,377,499	3,116,952	3,398,063	2,033,993	1,914,276	1,782,609	1,479,790	1,370,877	1,219,895
Debt service	-	-	313,669	153,249	147,255	148,230	1,019,635	154,595	154,320	153,740
Total	\$ 3,617,321	\$ 3,377,499	3,430,621	3,551,312	2,181,248	2,062,506	2,802,244	1,634,385	1,525,197	1,373,635

See accompanying independent auditor's report



Donald A. Weber, C.P.A.
David L. Fox, C.P.A.
Dana J. Elliott, C.P.A.

641 Young Street
Jesup, IA 50648
(319)827-6600
Fax (319)827-2121
rfsw.com

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 Board of Trustees:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business type activities, each major fund and the aggregate remaining fund information of La Porte City Utilities, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated October 9, 2014. Our report express unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, as basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered La Porte City Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of La Porte City Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of La Porte City Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the La Porte City Utilities financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-14, II-C-14, II-D-14 and II-E-14 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-14 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Porte City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted no immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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.

La Porte City Utilities' Responses to Findings

La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. La Porte City Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co. P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

October 9, 2014

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-14 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.

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

Response – We will consider this.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-14 Preparation Financial Statements - La Porte City Utilities does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response – The Utility feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response accepted.

- II-C-14 Sewer Utility Rates – The City Council approved an ordinance to increase sewer rates effective July 15, 2012. The minimum sewer use charge increased. The Utility does the billing for the City's sewer charges. After the increase, the sewer base rate was not properly increased in the Utility billing system. This was noted in last years audit report and also affected this year.

Recommendation – The Utility should review their utility billing system after each approved rate increase by the Utility and the City, to ensure the correct rates are being reflected and charged to customers.

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Response – This was an oversight on the part of management and the utility billing software has been corrected. Rates now correctly reflect the increased sewer rate.

Conclusion – Response acknowledged.

- II-D-14 Garbage Rates – The City Council approved an ordinance to increase garbage rates for commercial effective August 2013. The commercial businesses without dumpster minimum rate increased. The Utility does the billing for the City's garbage charges. After the increase, the commercial businesses without dumpsters minimum rate was not properly increased in the Utility billing system.

Recommendation – The Utility should review their utility billing system after each approved rate increase by the Utility and the City, to ensure the correct rates are being reflected and charged to customers.

Response – This was an oversight on the part of management and the utility billing software has been corrected. Rates now correctly reflect the increased garbage commercial businesses without dumpsters minimum rate.

Conclusion – Response acknowledged.

- II-E-14 Electric Utility Rates – The Utility Board approved resolution 13-07 which calls for a 2% increase in electric rates for four years effective June 15, 2010. The detail breakdown on this Resolution does not calculate out to the 2% increase as called for, for the rates effective June 15, 2013. In addition, the rates that were calculated on the resolution are rounded up to 4 decimal points, and the rates that were entered into the system are unrounded. The combination of items created billing deficiencies during the audit

Recommendation – The Utility should amend the resolution to have the correct detail of electric rates and input the rates into the system as on the Resolution.

Response – This was an oversight on the part of management and an amended Resolution has been created for the board to approve.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-14 Certified Budget – Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted.
- IV-B-14 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-14 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- IV-D-14 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.
- IV-E-14 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.
- IV-F-14 Board of Trustee Minutes – We noted an instance where a transfer was not approved in the board minutes.

Recommendation – The Utility should make all approve all transfers.

Response – In the future the board will approve all transfers.

Conclusion – Response accepted.

Minutes were not properly signed in minute book in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation – The City should also comply with Chapter 380.7 of the Code of Iowa and properly sign the minutes in the minute book.

Response – We will approve all transfers and comply with Chapter 380.7 of the Code of Iowa.

Conclusion – Response accepted.

- IV-G-14 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 Utility’s investment policy.
- IV-H-14 Revenue Notes – The Utility has complied with the revenue bond and note resolutions.

La Porte City Utilities

Staff

This audit was performed by:

Dana Elliott, CPA, Manager
Brent Waters, CPA, Staff
Curtis Lamont, Staff