

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013**

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

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ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**OFFICIALS
DECEMBER 31, 2013**

Name	Position	Term Expires
Kevin Walsh	Chairman	June 2015
Julie Fast	Trustee	June 2018
Tom Stanton	Trustee	resigned December 2013
Dave Taylor	Trustee	resigned December 2013
Veronica McFadden	Trustee	resigned March 2014
Todd Peterson	Trustee	June 2017
Tom Hinkeldey	Trustee	June 2016
Randy Tilk	Superintendent	Indefinite

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Terrie L. Larkowski, C.P.A.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Alta Municipal Broadband Communications Utility
Alta, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and each major fund of Alta Municipal Broadband Communications Utility (the Communications Utility), a component unit of City of Alta, Iowa, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Communications Utility's basic financial statements as 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 accounting principles generally accepted in the United States of America; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Communications 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 Communications 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 that 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 financial position of the business-type activities and each major fund of Alta Municipal Broadband Communications Utility, as of December 31, 2013, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alta Municipal Broadband Communications Utility's basic financial statements. The budgetary comparison information on Schedule 1, page 14, and the supplementary schedule of expenses, Schedule 2, page 16, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2014, on our consideration of the Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Communications Utility's internal control over financial reporting and compliance.

June 23, 2014
Omaha, Nebraska

BASIC FINANCIAL STATEMENTS

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

ASSETS	Telephone Utility Fund	Cable TV & Internet Utility Fund	Total
CURRENT ASSETS:			
Cash and cash equivalents	\$ 166,364	\$ 255,657	\$ 422,021
Accounts receivable, net of allowance	24,987	6,952	31,939
Prepaid expenses	<u>1,330</u>	<u>1,541</u>	<u>2,871</u>
Total current assets	192,681	264,150	456,831
CAPITAL ASSETS:			
Utility plant, facilities and equipment, at cost	791,238	2,720,534	3,511,772
Accumulated depreciation	<u>(645,975)</u>	<u>(2,247,434)</u>	<u>(2,893,409)</u>
Total capital assets, net	145,263	473,100	618,363
 Total assets	 <u>\$ 337,944</u>	 <u>\$ 737,250</u>	 <u>\$ 1,075,194</u>
 LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable - trade	\$ 10,785	\$ 22,641	\$ 33,426
Payroll, sales and use taxes payable	1,845	4,047	5,892
Accrued expenses	<u>2,277</u>	<u>1,672</u>	<u>3,949</u>
Total current liabilities	14,907	28,360	43,267
 NET POSITION			
Net investment in capital assets	145,263	473,100	618,363
Unrestricted	<u>177,774</u>	<u>235,790</u>	<u>413,564</u>
Total net position	323,037	708,890	1,031,927
 Total liabilities and net position	 <u>\$ 337,944</u>	 <u>\$ 737,250</u>	 <u>\$ 1,075,194</u>

See notes to financial statements.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Telephone Utility Fund	Cable TV & Internet Utility Fund	Total
OPERATING REVENUES:			
Sale of telephone services -			
Local	\$ 144,172	\$ -	\$ 144,172
Long distance	17,341	-	17,341
Access fees	67,260	-	67,260
Sale of cable services -			
Basic cable	-	269,108	269,108
Premium channels	-	8,018	8,018
Digital services	-	35,144	35,144
Directory advertising	2,750	1,849	4,599
Internet	-	209,736	209,736
Fiber lease income	4,200	4,200	8,400
Other access fees	364	-	364
Miscellaneous	2,412	1,644	4,056
Total operating revenues	<u>238,499</u>	<u>529,699</u>	<u>768,198</u>
OPERATING EXPENSES:			
Cost of service and operations	82,850	319,062	401,912
Maintenance and distribution expenses	35,378	25,362	60,740
Administrative general expenses	101,128	95,483	196,611
Depreciation	16,011	69,661	85,672
Total operating expenses	<u>235,367</u>	<u>509,568</u>	<u>744,935</u>
Operating income	3,132	20,131	23,263
NONOPERATING REVENUES (EXPENSES):			
Gain (loss) on capital asset disposal	<u>(424)</u>	<u>(1,679)</u>	<u>(2,103)</u>
Change in net position	2,708	18,452	21,160
Total net position - beginning of year	320,329	690,438	1,010,767
Total net position - end of year	<u>\$ 323,037</u>	<u>\$ 708,890</u>	<u>\$ 1,031,927</u>

See notes to financial statements

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Telephone Utility Fund	Cable TV & Internet Utility Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Received from customers and users	\$ 234,071	\$ 524,961	\$ 759,032
Paid to suppliers for goods and services	(142,944)	(308,900)	(451,844)
Paid to employees for wages and benefits	(72,913)	(129,983)	(202,896)
Net cash flow from operating activities	<u>18,214</u>	<u>86,078</u>	<u>104,292</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Paid for construction or purchase of capital assets	(3,590)	(33,935)	(37,525)
Net increase in cash and invested cash	14,624	52,143	66,767
Cash and cash equivalents - beginning of year	151,740	203,514	355,254
Cash and cash equivalents - end of year	<u>\$ 166,364</u>	<u>\$ 255,657</u>	<u>\$ 422,021</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (Exhibit B)	\$ 3,132	\$ 20,131	\$ 23,263
Adjustments to reconcile operating income to net cash from operating activities -			
Depreciation - capital assets	16,011	69,661	85,672
Allowance for doubtful accounts	4,921	-	4,921
(Increase) decrease in operating assets -			
Accounts receivable	(9,348)	(4,738)	(14,086)
Prepaid expenses	(149)	(173)	(322)
Increase (decrease) in operating liabilities -			
Accounts and other payables	1,940	(925)	1,015
Payroll, sales and use taxes payable	648	1,126	1,774
Accrued expenses	1,059	996	2,055
Net cash flows from operating activities	<u>\$ 18,214</u>	<u>\$ 86,078</u>	<u>\$ 104,292</u>
NONCASH FINANCING ACTIVITIES:			
Gain (loss) on capital asset disposal	<u>\$ (424)</u>	<u>\$ (1,679)</u>	<u>\$ (2,103)</u>

See notes to financial statements.

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Organization and Nature of Activities -**

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

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

B. **Reporting Entity -**

These financial statements include only accounts of Alta Municipal Broadband Communications Utility. Generally accepted accounting principles requires management to consider all criteria including if it has oversight responsibility or control over any other legal entity in determining the reporting entity. Alta Municipal Broadband Communications Utility has no component units itself, but has determined that it is a component unit of the City of Alta, Iowa.

C. **Basis of Presentation -**

The accounts of the Communications Utility are organized on the basis of funds, each of which is considered to be a separate accounting entity and each displayed in a separate column in the financial statements. The activities of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, net position, revenues and expenses. All Communications Utility activity is reported in two major enterprise funds: Telephone Utility Fund and Cable TV and Internet Fund. As the Communications Utility discontinued the pager service, the fund was renamed. The word pager had been removed from the title of the fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods and services provided. These financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable for enterprise funds of governmental entities.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The statement of net position and statement of revenues, expenses and changes in net position display information about the business-type activities of the Communications Utility as a whole and by individual funds. They are presented using the full accrual economic resource basis. For the most part, the effect of interfund activity has been removed from these statements. Net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources shown on the statement of net position and is divided into three components:

Net investment in capital assets consists of the historical cost of capital assets less accumulated depreciation and less remaining unpaid debt that was used to acquire those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position consists of assets that are restricted by the enabling legislation, by grantors, by externally imposed bond covenants, and by other contributors. The Communications Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Unrestricted net position consist of all remaining net position reported in this category.

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

E. Use of Estimates -

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

F. Revenue Recognition -

Sale of cable, internet, and telephone services are billed in advance on the 25th of each month for service through the end of the subsequent month. Consequently, advance billings in the amount of \$55,952 attributable to the month of January 2014 have been removed from revenue and the related receivables to properly match vendor billings. The Communications Utility is billed by its vendors on a month-to-month basis for telephone, cable, and internet services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Cash and Cash Equivalents -

All nonnegotiable certificates of deposit are readily convertible to known cash amounts and are included, for purposes of cash flows and cash equivalents, as cash. Also included in cash and cash equivalents at December 31 are the pro rata share of cash held by jointly-owned entities for the benefit of AMU.

H. Accounts Receivable and Allowances -

An estimate is made for allowances for doubtful collections based on an analysis of the aging of accounts receivable and on historical write-offs, net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. The allowance for the Telephone Fund was \$14,697. No allowance was deemed necessary for the Cable Fund.

I. Capital Assets -

Capital assets, which include utility plants, infrastructures, facilities and equipment, are valued at historical cost. This includes the cost of system renewals and betterments, including engineering, labor, construction period interest and other related costs. The Communications Utility does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual item basis.

Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

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

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

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

Plant and structures	20-50 Years
Transmission system and improvements	25-35 Years
Distribution system and improvements	25-35 Years
Tools and shop equipment	5-10 Years
Furniture and office equipment	5-10 Years
Vehicles	5 Years

J. Budget Information-

In accordance with the Code of Iowa, Board of Trustees annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Budgetary control is based on the total expenditures of all utility funds as a whole. During the year, there were no budget amendments. All appropriations lapse at year end.

NOTE 2 - POOLED CASH AND INVESTMENTS

Alta Municipal Broadband Communications Utility (The Communications Utility) and Alta Municipal Utilities (AMU) pool their deposits and investments and maintain records as to each entity’s share of the total balance. All deposits at December 31, 2013, were covered by federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Both entities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit or savings accounts at federally insured depository institutions approved by the Trustees and Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of drainage districts. At December 31 neither entity held investments other than certificates of deposit included in cash balances.

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

Custodial Credit Risk - For cash deposits held by financial institutions and cash held by jointly-owned entities for the benefit of AMU, there is a risk that in the event of failure of the bank jointly-owned entity, cash deposits may not be returned. All cash deposits held by banks are 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 ensure there will be no loss of public funds.

NOTE 3 - CAPITAL ASSETS

The Communications Utility allocated 27 percent of the original cost of the underground fiber and coaxial cable communication system to the telephone utility and the remainder to the cable TV and internet utility.

Details of changes in capital asset costs and depreciation reported by each enterprise fund are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Telephone Utility</u>				
Plant and equipment cost	\$ 788,560	\$ 3,590	\$ 912	\$ 791,238
Accumulated depreciation	(630,451)	(16,011)	(487)	(645,975)
Cost less depreciation	<u>\$ 158,109</u>	<u>\$ (12,421)</u>	<u>\$ 425</u>	<u>\$ 145,263</u>
<u>CATV & Internet Utility</u>				
Plant and equipment cost	\$ 2,693,679	\$ 33,935	\$ 7,080	\$ 2,720,534
Depreciation	(2,183,174)	(69,661)	(5,401)	(2,247,434)
Cost less depreciation	<u>\$ 510,505</u>	<u>\$ (35,726)</u>	<u>\$ 1,679</u>	<u>\$ 473,100</u>

NOTE 4 - COMPENSATED ABSENCES

The Communications Utility employees are entitled to accumulate a limited amount of earned but unused vacation hours for subsequent use or payment upon termination, retirement or death. Accrued compensated absences included in the financial statements represent the amount due for the hours accumulated at the employees' December 31, 2013 rate of compensation.

NOTE 5 - PENSION AND RETIREMENT BENEFITS

The Communications Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, established by State statute, to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan participants are required to contribute 5.78% of their annual covered salary through June 30, 2013, and 5.95% through December 31, 2013, and the Communications Utility is required to contribute 8.67% through June 30, 2013, and 8.93% through December 31, 2013, of annual covered payroll. Contribution requirements are established by State statute. The Communications Utility's contributions to IPERS for the years ending December 31, 2013, 2012, and 2011, were \$14,826, \$13,127, and \$9,187, respectively, equal to the required contribution for each year.

NOTE 6 - CONCENTRATIONS

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

NOTE 7 - RISK MANAGEMENT

The Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Communications Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

As required by state law, The Communications Utility offers health insurance to former employees who have retired after age 55, but have not yet reached Medicare eligibility. The full insured plan is part of the plan offered to all its employees, whereby the retirees must pay the full cost of a health insurance premium equal to that charged for current employees. There are currently five active employees, none of which are retired, covered by the plan. Management has determined that current and potential future cost exposures to this requirement is minimal and has not recorded any liability for this employment benefit.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 23, 2014, the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of, or disclosure in, the financial statements.

SUPPLEMENTARY INFORMATION

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF ACTUAL TO BUDGET COMPARISON
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Actual	Original and Final Budget Amounts	Actual to Budget Variance
RESOURCES:			
Charges for service	\$ 755,378		
Other revenue	<u>12,820</u>		
Total receipts	768,198	\$ 758,335	\$ 9,863
EXPENDITURES:			
Business type activities -			
Operating expenses	744,935		
Capital outlay	<u>37,525</u>		
Total disbursements	<u>782,460</u>	847,121	64,661
Excess (deficiency) of resources over expenditures	(14,262)	<u>\$ (88,786)</u>	<u>\$ 74,524</u>
RECONCILE ACTUAL ON BUDGET BASIS TO FINANCIAL STATEMENTS:			
Add back (deduct) -			
Loss on capital asset disposal	(2,103)		
Capital outlay	<u>37,525</u>		
Sub-total	21,160		
Net position, beginning of year	1,010,767		
Net position, end of year	<u>\$ 1,031,927</u>		

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

NOTES TO SUPPLEMENTARY BUDGET INFORMATION

In accordance with the Code of Iowa, the governing Board of Trustees annually adopts a budget following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of expenses known as functions, not by fund or fund type. One of these classes of expenses is business-type activities under which the functional expenditures for enterprises by fund are required to be budgeted. Although the budget document presents functional expenses by fund, the legal level of control is at the aggregated functional level, not by fund. That is, Alta Municipal Broadband Communications Utility prepares its budget as an enterprise fund and controls its expenditures at the aggregate total of the telephone and cable TV and internet funds combined.

The budget was not amended during the year.

The actual amounts shown on the accompanying budget comparison schedule are shown on the same basis of which the budget was prepared. The schedule includes a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The primary differences are debt payments and acquisition or disposal of capital assets reported differently for financial statement and budget purposes.

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

**SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Telephone Utility Fund	Cable TV & Internet Utility Fund	Total
COST OF SERVICE AND OPERATIONS:			
Wages and benefits	\$ 17,190	\$ 82,018	\$ 99,208
Other expenses	757	4,271	5,028
Circuit fees	19,993	-	19,993
Basic CATV programming	-	174,770	174,770
Premium channel programming	-	8,828	8,828
Digital programming	-	23,634	23,634
Internet fees	-	25,541	25,541
Switching fees	16,932	-	16,932
Long distance fees	4,660	-	4,660
Access fees	7,335	-	7,335
Billing fees	15,983	-	15,983
	<u>\$ 82,850</u>	<u>\$ 319,062</u>	<u>\$ 401,912</u>
MAINTENANCE AND DISTRIBUTION EXPENSES:			
Wages and benefits	\$ 8,593	\$ 822	\$ 9,415
Supplies	7,972	15,212	23,184
Utilities	9,329	9,328	18,657
Operating expenses	9,484	-	9,484
	<u>\$ 35,378</u>	<u>\$ 25,362</u>	<u>\$ 60,740</u>
ADMINISTRATIVE GENERAL EXPENSES:			
Wages and benefits	\$ 47,130	\$ 47,143	\$ 94,273
Office supplies and postage	3,449	3,450	6,899
Insurance - employees	8,124	23,525	31,649
Insurance - general	9,873	9,849	19,722
Professional fees	15,262	4,976	20,238
Telephone	2,728	751	3,479
Advertising	4,568	768	5,336
Dues and subscriptions	1,441	567	2,008

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Telephone Utility Fund	Cable TV & Internet Utility Fund	Total
ADMINISTRATIVE GENERAL EXPENSES:			
(Continued)			
Meetings and travel	\$ 243	\$ 157	\$ 400
Bad debts (recoveries)	4,835	793	5,628
Other expense	3,475	3,504	6,979
	<u>\$ 101,128</u>	<u>\$ 95,483</u>	<u>\$ 196,611</u>
Total administrative general expenses			
DEPRECIATION	<u>\$ 16,011</u>	<u>\$ 69,661</u>	<u>\$ 85,672</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

Alta Municipal Broadband Communications Utility
Alta, Iowa

We have audited, in accordance with the 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, the financial statements of the business-type activities and each major fund of Alta Municipal Broadband Communications Utility (the Communications Utility), a component unit of City of Alta, Iowa, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Communications Utility's basic financial statements, and have issued our report thereon dated June 23 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Communications Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Communications Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Communications Utility's internal control.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, that we consider to be significant deficiencies as described in Part II of the accompanying schedule of findings and responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Communications Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of Findings and Responses in Part III, Item III-G-13 Trustee Minutes.

Comments involving statutory and other legal matters about the Communications Utility's operations for the year ended December 31, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Communications Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Auditee Response to Findings

The Communications Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Communications Utility's 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

June 23, 2014
Omaha, Nebraska

ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) Unmodified opinions were issued on the basic financial statements.
- (b) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (c) No material weaknesses in internal controls were noted. Significant deficiencies were noted and included in the report on internal control.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Instances of Non-Compliance:

See Part III, Item III-G-13, Trustee Minutes.

Internal Control Deficiencies:

II-A-13 **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. This deficiency increases the chances of misappropriation of assets occurring and not being detected. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

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

Response - Management of the Communications Utility will continue to cross-train office employees in an attempt to improve internal control. Specifically, the cash receipts listing, depositing and posting duties will be separated and spread among several employees and the Board of Trustees will start reviewing and tracing all deposits to cash receipts journal posting. We plan to implement these changes as soon as practicable. This problem may never be one hundred percent alleviated due to the limited number of employees to perform the duties.

Conclusion - Response accepted.

II-B-13 **Financial Reporting** - While management is capable of assembling accurate financial information sufficient for the trustees to rely to make operating decisions, they do not possess the skills necessary to report financial information as financial statements, and the related disclosures notes thereto, in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

**ALTA MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

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

Internal Control Deficiencies: (Continued)

II-B-13 **Financial Reporting** (Continued)

Recommendation - Management should improve their knowledge of U.S. GAAP attending local or online professional educational courses and investing time to read relevant accounting literature. In addition, attendance at certain educational seminars sponsored by the Auditor of the State of Iowa could be beneficial.

Response - The trustee's primary intent is to employ individuals whose knowledge relates directly to utility operations. Steps will be taken to help employees increase their knowledge and understanding of relevant accounting principles to improve overall financial reporting.

Conclusion - Response accepted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-13 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended December 31, 2013.

III-B-13 **Certified Budget** - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Utility expenses during the year ended December 31, 2013, did not exceed the amount budgeted.

III-C-13 **Questionable Expenditures** - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-13 **Travel Expense** - No disbursements of Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-E-13 **Business Transactions** - Business transactions between Alta Municipal Broadband Communications Utility and the Utility's officials are immaterial and meet the guidelines of the Code of Iowa.

III-F-13 **Bond Coverage** - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-13 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes but were not. However, total receipts for the month are not reported as required.

Recommendation - The City should comply with requirements to include receipts in the published minutes.

Response - We will comply with the requirements and will publish required information.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING: (Continued)

III-GB-13 **Trustee Minutes** (Continued)

Conclusion - Response accepted.

III-H-13 **Deposits and Investments** - No instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa and the Alta Municipal Broadband Communications Utility investment policy were noted.

III-I-13 **Telecommunications Services** - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.