

**MARSHALLTOWN WATER WORKS**

**Independent Auditors' Reports  
Financial Statements and  
Supplementary Information  
Schedule of Findings  
June 30, 2004 and 2003**

# MARSHALLTOWN WATER WORKS

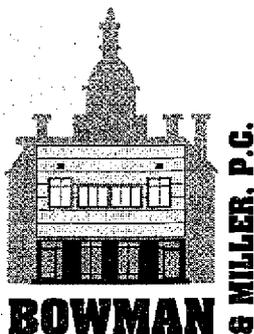
## Contents

	<u>Page</u>
Officials .....	1
Independent Auditors' Report .....	2-3
Management's Discussion and Analysis .....	4-6
Financial Statements:	
Balance Sheets .....	7
Statements of Revenues, Expenses and Changes in Net Assets .....	8-9
Statements of Cash Flows .....	10-11
Note to Financial Statements .....	12-18
Supplementary Information:	
Balance Sheets Detail .....	19-20
Schedules of Operating Expenses:	
Treatment Plant Expenses .....	21-22
Engineering Expenses .....	23-24
Construction and Maintenance Expenses .....	25-26
Customer Service and Meter Expenses .....	27
Administrative and Non-Operating Expenses .....	28-29
Summary of Indebtedness .....	30
Independent Auditors' Report on Compliance and On Internal Control over Financial Reporting .....	31-32
Schedule of Findings .....	33
Audit Staff .....	34

# MARSHALLTOWN WATER WORKS

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Trustee – Chairperson	May 1, 2006
Dan Roberts	Trustee	May 1, 2005
Kenneth Vinson	Trustee	May 1, 2007
Leon Lamer	CEO/General Manager	Indefinite
Steve Sincox	Director of Engineering	Indefinite
Dean Reynolds	Director of Water Products	Indefinite
Pay Willey	Director of Finance	Indefinite



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report

To the Board of Trustees  
Marshalltown Water Works  
Marshalltown, Iowa

We have audited the accompanying financial statements of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2004 and 2003, and for the years then ended listed in the table of contents. These financial statements are the responsibility of the Marshalltown Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the funds of the Marshalltown Water Works and do not present the financial position of the City of Marshalltown, Iowa, as of June 30, 2004 and 2003, and the changes in its financial position and cash flows where applicable and its indebtedness, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004, on our consideration of the Marshalltown Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, contracts and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and it should be read in conjunction with this report in considering the results of our audits.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplementary information included in pages nineteen through thirty is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
August 13, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of the Marshalltown Water Works' Annual Financial Report presents our discussion of the Water Works' financial performance during the financial year ending June 30, 2004.

Use this discussion in conjunction with the financial report to better understand the Water Works' financial condition, which follows this section.

### **FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES**

- ◆ A new fluoride system was designed and installed at the water treatment plant by in-house staff. The first phase of the office building parking lot project was completed. The Water Works purchased the last property east of the treatment plant to secure the safety of the water source supply. The Water Works completed the vulnerability study required by the Homeland Security Act and is actively working to complete the Emergency Response Plan. It is hoped that the Water Works can incorporate as much of the emergency response plan into the county emergency plan so that we are eligible for federal funding assistance to purchase new equipment.
- ◆ During 2004, as a result of the rate increase, the Marshalltown Water Works was able to increase the operational capital reserve fund by \$200,000 as outlined in the rate study, bringing the cash balance back to \$300,000.
- ◆ The Marshalltown Water Works has a general contract with one wholesale customer, and that customer is Central Iowa Water Association. Central Iowa Water Association is a rural water supplier and supplies water to about twenty-nine other communities and parts of eleven counties here in central Iowa. The present contract has a cap of 2,000,000 gallons a day as maximum usage. Work is now underway to revise that contract, keeping in mind that we have to maintain the security of our bond issue and the rights of those bondholders on our system.

### *Budgetary Highlights*

Over the course of the year the Water Works did not amend their budget.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Water Works' financial activities.

These financial statements consist of balance sheets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These provide information about the activities of the Marshalltown Water Works and present an overall view of the Water Works' finances.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Supplemental information provides detailed information about the balance sheet and expense accounts.

## *Reporting on the Financial Statements*

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The balance sheet includes all of the Water Works' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets regardless of when cash is received or paid.

The balance sheet reports the Water Works' net assets and how they have changed. Net assets (the difference between the Water Works' assets and liabilities) is one way to measure the Water Works' financial health, or position. Over time, increases and decreases in the Water Works' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The Water Works is considered a business type activity because it charges fees to customers to help cover the costs of certain services it provides.

### **FINANCIAL ANALYSIS OF THE WATER WORKS AS A WHOLE**

- ◆ The Water Works' total assets remained consistent over the past twelve months. Cash balances increased due to the net income shown for the year.
- ◆ Income for the Water Works increased \$629,447 over 2003, and total expenses increased \$49,114, leaving an operating income of \$612,942. After all non-operating income and expenses were recorded, the Water Works reported a net income of \$553,951 for the year ending June 30, 2004.
- ◆ Due to the rate increase and weather conditions, the Water Works' noted interest income and revenues exceeded expectations, and as a result, operating revenue exceeded the projected three percent increase over the fiscal year 2004. Expenses for the fiscal year 2004 were at eighty-six percent of budgeted numbers making them below the approved budget as approved by the Board of Trustees in March 2003.

### **DEBT ADMINISTRATION**

- ◆ During the fiscal year 2004, the Marshalltown Water Works made payment against bonded indebtedness of \$305,000 reducing bond indebtedness to \$1,355,000. This bond is a ten-year bond and the last payment on this bond is due June 2008. The Water Works also maintains an improvement fund of \$200,000 as required by the bond resolution, and it continues to maintain a \$350,000 reserve fund also required by the bond resolution. These two fund amounts must be held in reserve in case of default on the bonds.

### **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

- ◆ In June 2004 the Water Works Board of Trustees employed Economic and Engineering Services to update the Cost-of-Service Study. Economic and Engineering Services recommended to the Board that the Water Works raise rates to replenish the operative and capital reserves by an additional \$200,000 per year until a minimum of \$500,000 is in the reserve fund. Also, they assumed 1.25 rate times the annual depreciation expense for capital project funding from rates which would equal \$700,000 per year. Using these premises, the proposed rates were calculated and a three-year increase was proposed.
- ◆ The Board reviewed the proposal and chose to skip year one and enact the second year cumulative adjustment by customer class. These adjustments ranged from a high of 45.8 percent for industrial customers to 8.8 percent for wholesale customers. This accounted for the turnaround in the financial condition of the Marshalltown Water Works.

## **CONDITIONS OF THE WATER WORKS INFRASTRUCTURE**

- ◆ The Marshalltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshalltown Water Works spent most of 2004 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received complaints on pressure or quality and as those complaints increase in a certain area we look at the possibility of upgrading those systems to meet the demands of our customers.
- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.
- ◆ During the spring of 2004, the Water Works held its first ever strategic planning session and used a facilitator to provide the guidance and experience. This was a good start, but due to the small staff the first round is going slower than planned, but all involved felt good about the outcome of the process.

## **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

- ◆ On July 1, 2004 the Water Works Board of Trustees put into place a comprehensive cost of service study, which calls for a three-year rate increase to all customers, the amount depending on the type of customer. Because of the economics of the system, the Board chose to adopt the second year of the rate structure as an accumulative rate and make that effective on July 1, 2004. The income projections from that increase should start to build back up, so that we would end up over a three-year period with approximately \$700,000 through rate increases for capital projects. It would build back into those rates an additional \$500,000 as a reserve fund for operational procedures that presently has been depleted down to just \$100,000.
- ◆ The Water Works is hoping that the rate increase will generate enough capital to complete the Well #15 Project. Completion of the project will make it possible for the Water Works to save a fair amount of money on energy costs because that one new well could actually support our entire system during the low flow times of the fall, winter, and spring months. The savings on energy costs could be used to finalize some projects that the Water Works needs to complete within the system.
- ◆ The Water Works is looking at a new billing, accounting, payroll, accounts payable, customer service windows-based computer system to update the existing system. This would allow the staff more information and a system that works more effectively. We had our first demonstration of the system, and are going to visit other towns using the same system before we make a final decision.

## **CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT**

This financial report is designed to provide customers, investors, and creditors of the Marshalltown Water Works with a general overview of its financial situation and to demonstrate the accountability of the Water Works for the money it receives. If you have any questions about this report you may contact either Leon Lamer, or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

# MARSHALLTOWN WATER WORKS

## Balance Sheets June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
<b><u>ASSETS:</u></b>			
Current assets:			
Cash	\$ 955,149	520,911	434,238
Accounts receivable	190,293	188,742	1,551
Other receivables	59,177	78,656	(19,479)
Prepaid expenses	69,568	62,496	7,072
Merchandise for resale	443	-	443
Sinking fund	30,685	30,805	(120)
Total current assets	<u>1,305,315</u>	<u>881,610</u>	<u>423,705</u>
Investments:			
Temporary cash investments	303,246	100,000	203,246
Improvement fund	200,000	200,000	-
Reserve fund	350,000	350,000	-
Total investments	<u>853,246</u>	<u>650,000</u>	<u>203,246</u>
Property, plant and equipment:			
Property, plant and equipment	19,992,907	19,734,489	258,418
Accumulated depreciation	(8,230,148)	(7,645,124)	(585,024)
Net property, plant and equipment	<u>11,762,759</u>	<u>12,089,365</u>	<u>(326,606)</u>
Other assets:			
Bond origination fee	5,978	7,545	(1,567)
Total assets	<u>\$ 13,927,298</u>	<u>13,628,520</u>	<u>298,778</u>

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
<b><u>LIABILITIES:</u></b>			
Current liabilities:			
Accounts payable	\$ 32,851	40,809	(7,958)
Payable to landfill fund	13,377	9,396	3,981
Payable to sewer fund	213,839	195,618	18,221
Payable to storm sewer fund	27,387	-	27,387
Customer deposits - sewer	69,130	65,606	3,524
Customer deposits - water	48,895	47,750	1,145
Sewer interest	88	103	(15)
Accrued liabilities	124,487	120,945	3,542
Current portion of long-term debt	315,000	305,000	10,000
Total current liabilities	<u>845,054</u>	<u>785,227</u>	<u>59,827</u>
Long-term debt:			
Revenue bonds	1,355,000	1,660,000	(305,000)
Less: current portion	<u>(315,000)</u>	<u>(305,000)</u>	<u>(10,000)</u>
Total long-term liabilities	<u>1,040,000</u>	<u>1,355,000</u>	<u>(315,000)</u>
Total liabilities	<u>1,885,054</u>	<u>2,140,227</u>	<u>(255,173)</u>
<b><u>NET ASSETS:</u></b>			
Invested in capital assets, net of related debt	10,402,324	10,429,635	(27,311)
Restricted for debt service	380,685	380,805	(120)
Unrestricted	<u>1,259,235</u>	<u>677,853</u>	<u>581,382</u>
Total net assets	<u>12,042,244</u>	<u>11,488,293</u>	<u>553,951</u>
Total liabilities and net assets	<u>\$ 13,927,298</u>	<u>13,628,520</u>	<u>298,778</u>

**MARSHALLTOWN WATER WORKS**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,292,164	1,112,776	179,388
Multi-family	182,137	153,114	29,023
Commercial	352,560	268,250	84,310
Irrigation	46,854	33,801	13,053
Industrial	565,103	358,767	206,336
Wholesale	705,232	602,325	102,907
Non-metered	1,844	777	1,067
City contract services	61,542	56,091	5,451
Penalties	24,533	23,431	1,102
Customer service	16,116	9,836	6,280
Testing laboratory	8,930	8,400	530
Total operating revenues	<u>3,257,015</u>	<u>2,627,568</u>	<u>629,447</u>
Operating expenses:			
Salaries and wages	850,117	815,068	35,049
Payroll taxes and benefits	234,605	233,762	843
Utilities	267,869	248,411	19,458
Fuels	10,102	9,877	225
Supplies	65,462	77,591	(12,129)
Repairs and maintenance	57,443	52,876	4,567
Chemicals	438,477	434,476	4,001
Contract services	21,560	20,897	663
Insurance	68,661	72,068	(3,407)
Professional fees	10,690	10,787	(97)
Other operating expense	20,168	28,888	(8,720)
Bad debt expense	-	20	(20)
Depreciation	598,919	590,238	8,681
Total operating expenses	<u>2,644,073</u>	<u>2,594,959</u>	<u>49,114</u>
Operating income	<u>612,942</u>	<u>32,609</u>	<u>580,333</u>

# MARSHALLTOWN WATER WORKS

## Statements of Revenues, Expenses and Changes in Net Assets (Continued) Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	23,229	23,608	(379)
Rentals	2,100	2,600	(500)
Refunds and reimbursements	-	288	(288)
Gain (loss) on sale of assets	2,500	(3,308)	5,808
Miscellaneous income	2,506	675	1,831
Interest expense	(75,660)	(75,393)	(267)
Miscellaneous expense	<u>(13,666)</u>	<u>(5,067)</u>	<u>(8,599)</u>
Total non-operating revenues (expenses)	<u>(58,991)</u>	<u>(56,597)</u>	<u>(2,394)</u>
Change in net assets	553,951	(23,988)	577,939
Net assets, beginning	<u>11,488,293</u>	<u>11,512,281</u>	<u>(23,988)</u>
Net assets, ending	<u>\$ 12,042,244</u>	<u>11,488,293</u>	<u>553,951</u>

# MARSHALLTOWN WATER WORKS

## Statements of Cash Flows Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,267,548	2,629,499
Cash payments to suppliers for goods and services	(896,472)	(865,982)
Cash payments to employees and professional contractors for services	<u>(1,097,288)</u>	<u>(1,070,126)</u>
Net cash provided (used) by operating activities	<u>1,273,788</u>	<u>693,391</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	650,000	950,000
Purchase of investments	(853,246)	(850,000)
Investment income	23,229	23,608
Receipt of rental income	2,100	2,600
Other operating revenues (expenses)	<u>(11,161)</u>	<u>(4,104)</u>
Net cash provided (used) in investing activities	<u>(189,078)</u>	<u>122,104</u>
Cash flows from capital and related financing activities:		
Payment on revenue bonds	(305,000)	(290,000)
Interest paid on revenue bonds	(75,660)	(75,393)
Acquisition of capital assets	(274,813)	(320,615)
Proceeds from sale of assets	<u>5,001</u>	<u>8,000</u>
Net cash provided (used) by financing activities	<u>(650,472)</u>	<u>(678,008)</u>
Net change in cash and cash equivalents	434,238	137,487
Cash and cash equivalents at beginning of year	<u>520,911</u>	<u>383,424</u>
Cash and cash equivalents at end of year	<u>\$ 955,149</u>	<u>520,911</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 612,942	32,609
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	587,276	590,238
Bond origination fees	1,567	1,567
Gain on sale of asset	(2,501)	-

# MARSHALLTOWN WATER WORKS

## Statements of Cash Flows (Continued) Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
(Increase) decrease in assets:		
Accounts receivable	(1,551)	(6,362)
Other receivables	19,479	15,758
Prepaid expenses	7,072	(7,165)
Merchandise for resale	(443)	56
Sinking fund	120	(356)
Increase (decrease) in liabilities:		
Accounts payable	(7,958)	9,036
Payable to sewer fund	18,221	30,679
Payable to landfill fund	3,981	905
Payable to storm sewer fund	27,387	-
Customer deposits-sewer	3,524	11,157
Customer deposits-water	1,145	4,965
Sewer interest	(15)	(84)
Accrued liabilities	<u>3,542</u>	<u>10,388</u>
Net cash provided (used) by operating activities	\$ <u>1,273,788</u>	<u>693,391</u>

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements June 30, 2004 and 2003

### Note 1. Summary of Significant Accounting Policies

The Marshalltown Water Works (the Water Works) is a component unit of the City of Marshalltown, as determined by criteria specified by the Governmental Accounting Standards Board. The Marshalltown Water Works is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria. They account for operations that are financed and operated in a manner similar to a private business enterprise where the expenses (including depreciation) of providing water services to the City of Marshalltown on a continuing basis are financed through user charges.

The financial statements of the Water Works have been prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Water Works applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

#### A. Accounts Receivable

Accounts receivable represent amounts billed for water uncollected at June 30, 2004 and 2003. Because of the Organization's policy to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded.

#### B. Property, Plant and Equipment

Additions to the plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest costs are capitalized for the purchase or construction of property, plant and equipment. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Plants, Wells and Storage	10-40 years
Distribution Property	50-99 years
Meters	10-20 years
Vehicles	5 years
Equipment	7-10 years

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2004 and 2003

### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Budgets

In accordance with the Code of Iowa, the Water Works annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

#### D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Water Works considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### E. Estimates

The Water Works uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

#### F. Bond Origination Fee

Bond origination fees are being amortized by the straight-line method over the life of the revenue bonds.

### Note 2. Deposits

The Water Works' deposits at June 30, 2004 and 2003 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 Water Works 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 on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposits at June 30, 2004 and 2003.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2004 and 2003

### Note 3. Bonds and Notes Payable

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>
2005	3.85%	\$ 315,000	53,226
2006	3.90%	330,000	41,098
2007	3.95%	345,000	28,228
2008	4.00%	<u>365,000</u>	<u>14,600</u>
		\$ <u>1,355,000</u>	<u>137,152</u>

The resolutions providing for the issuance of the revenue bonds included the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the enterprise activity.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) An amount equal to the maximum amount of principal and interest coming due on the bonds in any subsequent fiscal year shall be transferred to the water revenue debt service reserve fund. This shall be equal to 25% of the sinking fund requirements. This is used for debt service requirements whenever there is insufficient money available in the sinking fund.
- (d) Additional monthly cash transfers of \$10,000 to the improvement account shall be made until a minimum of \$200,000 is attained. This account pays principal or interest on the bonds when there shall be insufficient money in the sinking fund and the reserve fund, the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget for capital improvements.

No interest was capitalized for 2004 and 2003.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2004 and 2003

### Note 4. Pension and Retirement Benefits

The Water Works maintains the Marshalltown Water Works Supplemental Retirement and Pension Plan, which is a single employer defined benefit plan administered by United Bank and Trust. The Water Works' payrolls covered by the Plan for the years ended June 30, 2004, 2003, and 2002 were \$434,376, \$418,921, and \$405,556, respectively, while total payrolls for 2004, 2003 and 2002 were \$798,597, 798,788 and \$724,198, respectively.

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 1986. The Board of Trustees has the authority to amend the Plan at any time.

Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of average monthly compensation multiplied by the number of years of consecutive service for the years ended 2004, 2003 and 2002. Service prior to January 1, 1986 shall be limited to 25 years. Benefits are fully vested on reaching 10 or more years of credited service. The Plan also provides death and disability benefits.

The Plan is an actuarially funded system. The pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases. Significant actuarial assumptions used in the determination of the contribution and where applicable, in arriving at the benefit obligation, include an 8% investment return, 5% projected salary increases, retirement at age 65, and mortality based on the 1983 group annuity mortality table.

The pension benefit obligations as of April 1, 2004, 2003 and 2002 were as follows:

	<u>2004*</u>	<u>2003*</u>	<u>2002*</u>
Vested:			
Active	\$ 250,760	417,389	389,406
Retired	<u>880,151</u>	<u>956,972</u>	<u>786,695</u>
Total vested	1,130,911	1,374,361	1,176,101
Non-vested	<u>588,404</u>	<u>260,548</u>	<u>384,500</u>
Total pension benefit obligations	\$ <u>1,719,315</u>	<u>1,634,909</u>	<u>1,560,601</u>

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2004 and 2003

### Note 4. Pension and Retirement Benefits (Continued)

	<u>2004*</u>	<u>2003*</u>	<u>2002*</u>
Net assets available for benefits at market value	\$ 1,457,419	1,394,711	1,632,920
(cost 2004: \$1,430,170)			
(cost 2003: \$1,593,890)			
(cost 2002: \$1,636,567)			
Prepaid (unfunded) pension	\$ (261,896)	(240,198)	72,319

\*The last actuarial valuation was performed on April 1, 2004. Estimated values have been calculated as of April 1, 2003 and April 1, 2002.

The Water Works' funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The frozen entry age actuarial cost method is used to determine annual plan costs. Contribution percentages for the employer were 5 1/4% and 2 1/4% for employees. Contributions paid by the Water Works for the years ended June 30, 2004, 2003 and 2002 totaled \$24,977, \$24,083 and \$22,275, respectively, and the contributions paid by employees totaled \$9,773, \$9,424 and \$8,772, respectively.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. While ten-year trend information is not available, three-year trend information, for the years ended April 1, is presented as follows:

	<u>2004*</u>	<u>2003*</u>	<u>2002*</u>
Net assets available for benefits as percentages of the pension benefit obligations	85%	85%	108%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(43%)	(65%)	21%
Employer contributions (in accord- ance with actuarially determined requirements) as percentages of covered payroll	5.75%	5.75%	5.70%

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2004 and 2003

### Note 4. Pension and Retirement Benefits (Continued)

	<u>2004*</u>	<u>2003*</u>	<u>2002*</u>
Actuarial value of assets as a percentage of the actuarial accrued liability	79%	79%	96%
Ratio of the unfunded actuarial liability to annual covered payroll	62%	100%	17%
Total unfunded actuarial liability	\$ 378,851	371,485	59,743
Actuarial accrued liability	\$ 1,836,270	1,776,196	1,692,663
Actuarial value of plan assets	1,457,419	1,394,711	1,632,920

\*The last actuarial valuation was performed on April 1, 2004. Estimated values have been calculated as of April 1, 2003 and April 1, 2002.

For employees who choose not to participate in the Marshalltown Water Works' Supplemental Retirement and Pension Plan, the Water Works 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 3.70% of their annual salary and the Water Works is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Water Works' contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$23,121, \$22,763, and \$13,155, respectively, equal to the required contributions for each year.

### Note 5. Compensated Absences

Water Works employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The liability is recorded on the balance sheet based on current rates of pay.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2004 and 2003

### Note 6. Risk Management

The Water Works 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 Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for 2004 and 2003.

### Note 7. Property, Plant and Equipment

Property, plant and equipment are stated at cost as follows at June 30:

	<u>2004</u>	<u>2003</u>
Land	\$ 1,113,171	1,104,453
Plant and source of supply	8,175,199	8,051,317
Booster station	157,260	157,260
Distribution system and pipe	8,083,687	8,042,323
Meters	1,240,129	1,208,706
Machinery and equipment	324,010	305,215
Vehicles	193,741	186,987
Capital improvements	54,650	54,650
Capital improvements – buildings	375,366	364,316
Office equipment and furnishings	<u>275,694</u>	<u>259,262</u>
	19,992,907	19,734,489
Less accumulated depreciation	<u>(8,230,148)</u>	<u>(7,645,124)</u>
	\$ <u>11,762,759</u>	<u>12,089,365</u>

Depreciation expense was \$598,919 for the year ended June 30, 2004 and \$590,238 for the year ended June 30, 2003.

### Note 8. Concentrations of Credit Risk

Concentrations of credit with respect to accounts receivable is limited due to the large number of customers comprising the Water Works' customer base and the Water Works' policy of receiving a deposit amount or a credit reference from another utility before beginning service. However, some risk exists due to the small geographic location of all the receivables.

## Supplementary Information

# MARSHALLTOWN WATER WORKS

## Balance Sheets Detail June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
<b>Cash:</b>			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	612,488	232,674	379,814
Water deposits	48,895	47,750	1,145
Less: sinking fund allocation	<u>(30,685)</u>	<u>(30,805)</u>	<u>120</u>
 Total cash	 <u>\$ 631,328</u>	 <u>250,249</u>	 <u>381,079</u>
 <b>Cash held for city:</b>			
Sewer deposit fund	\$ 69,218	65,648	3,570
Sewer cash	213,839	195,618	18,221
Storm sewer cash	27,387	-	27,387
Landfill cash	<u>13,377</u>	<u>9,396</u>	<u>3,981</u>
 Total cash held for city	 <u>\$ 323,821</u>	 <u>270,662</u>	 <u>53,159</u>
 <b>Property, plant and equipment:</b>			
Land	\$ 1,113,171	1,104,453	8,718
Plant and source of supply	8,175,199	8,051,317	123,882
Accumulated depreciation - plant	(4,375,511)	(3,998,313)	(377,198)
Distribution system and pipe	8,083,687	8,199,583	(115,896)
Accumulated depreciation - distribution	(2,282,515)	(2,251,380)	(31,135)
Booster station	157,260	-	157,260
Accumulated depreciation-booster station	(49,664)	-	(49,664)
Meters	1,240,129	1,208,706	31,423
Accumulated depreciation - meters	(717,656)	(671,057)	(46,599)
Machinery and equipment	324,010	305,214	18,796
Accumulated depreciation - machinery and equipment	(234,435)	(213,405)	(21,030)
Vehicles	193,741	186,987	6,754
Accumulated depreciation - vehicles	(153,940)	(142,486)	(11,454)
Capital improvements	54,650	54,650	-
Accumulated depreciation - capital improvements	(11,589)	(9,121)	(2,468)
Capital improvements - buildings	375,366	364,316	11,050
Accumulated depreciation - buildings	(193,426)	(179,552)	(13,874)
Office equipment and furnishings	275,694	259,262	16,432
Accumulated depreciation - office equipment and furnishings	<u>(211,412)</u>	<u>(179,809)</u>	<u>(31,603)</u>
 Net property, plant and equipment	 <u>\$ 11,762,759</u>	 <u>12,089,365</u>	 <u>(326,606)</u>

See accompanying independent auditors' report.

# MARSHALLTOWN WATER WORKS

## Balance Sheets Detail (Continued) June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 57,161	50,446	6,715
Prepaid computer maintenance	8,643	8,163	480
Prepaid billing supplies	<u>3,764</u>	<u>3,887</u>	<u>(123)</u>
Total prepaid expenses	<u>\$ 69,568</u>	<u>62,496</u>	<u>7,072</u>
Other receivables:			
Miscellaneous accounts receivable billings	\$ 10,950	14,854	(3,904)
Interest receivable	3,824	5,502	(1,678)
Contract receivables	<u>44,403</u>	<u>58,300</u>	<u>(13,897)</u>
Total other receivables	<u>\$ 59,177</u>	<u>78,656</u>	<u>(19,479)</u>
Accrued liabilities:			
Accrued sales tax	\$ 5,934	6,536	(602)
Accrued F.I.C.A.	2,802	2,304	498
Accrued state withholding	-	2,829	(2,829)
Accrued payroll	37,832	31,138	6,694
Pre-tax insurance withheld	4,942	4,116	826
Accrued pension	1,113	905	208
Accrued vacation	71,326	71,669	(343)
Insurance withheld	(421)	899	(1,320)
Accrued retirement expense	1,062	886	176
Unreimbursed medical withheld	<u>(103)</u>	<u>(337)</u>	<u>234</u>
Total accrued liabilities	<u>\$ 124,487</u>	<u>120,945</u>	<u>3,542</u>

# MARSHALLTOWN WATER WORKS

## Treatment Plant Expenses Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ 283,983	274,437	9,546
Employee benefits:			
Health insurance	33,140	31,488	1,652
Pension	15,949	15,371	578
Social security	20,577	20,429	148
Life insurance	978	975	3
Mileage	226	438	(212)
Registration	1,188	4,450	(3,262)
Annual dues	-	25	(25)
Tuition	60	-	60
Lodging	201	96	105
Food	7	9	(2)
Safety clothing	561	2,096	(1,535)
Safety training	2,356	60	2,296
Medical	647	602	45
	<u>75,890</u>	<u>76,039</u>	<u>(149)</u>
Utilities:			
Electric	231,844	218,317	13,527
Gas	14,329	11,046	3,283
Internet	1,538	-	1,538
Telephone	2,635	3,217	(582)
	<u>250,346</u>	<u>232,580</u>	<u>17,766</u>
Depreciation:			
Plant depreciation	377,735	368,512	9,223
Equipment depreciation	2,468	3,218	(750)
	<u>380,203</u>	<u>371,730</u>	<u>8,473</u>
Fuels:			
Gas	406	350	56
Oil	1,396	42	1,354
Grease	3	-	3
Diesel fuel	85	563	(478)
	<u>1,890</u>	<u>955</u>	<u>935</u>

# MARSHALLTOWN WATER WORKS

## Treatment Plant Expenses (Continued) Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Supplies:			
Lab supplies	13,617	12,928	689
Plant supplies	1,448	1,459	(11)
Well supplies	7	193	(186)
Cleaning supplies	576	376	200
General supplies	748	2,533	(1,785)
Health and first aid	72	-	72
	<u>16,468</u>	<u>17,489</u>	<u>(1,021)</u>
Maintenance:			
Building maintenance	653	694	(41)
Machinery maintenance	11,232	7,721	3,511
Computer maintenance	2,456	1,758	698
Grounds maintenance	658	2,320	(1,662)
Well field maintenance	5,559	3,778	1,781
Heating and air maintenance	2,826	75	2,751
Safety equipment maintenance	264	1,154	(890)
Vehicle maintenance	847	9	838
	<u>24,495</u>	<u>17,509</u>	<u>6,986</u>
Chemicals:			
Pebble-lime	147,444	141,848	5,596
CO2	15,471	18,291	(2,820)
CL2	24,150	24,859	(709)
Fluoride	12,665	11,841	824
Poly-phosphate	6,870	5,963	907
Polymer	16,656	10,674	5,982
Lime sludge removal	215,220	221,000	(5,780)
	<u>438,476</u>	<u>434,476</u>	<u>4,000</u>
Contract services:			
Lab services	1,671	3,437	(1,766)
Total treatment plant	<u>\$ 1,473,422</u>	<u>1,428,652</u>	<u>44,770</u>

# MARSHALLTOWN WATER WORKS

## Engineering Expenses Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Salaries:			
Engineering salaries	\$ <u>86,700</u>	<u>77,625</u>	<u>9,075</u>
Employee benefits:			
Health insurance	7,010	6,660	350
Pension	4,985	4,460	525
Social security	6,478	5,800	678
Life insurance	335	315	20
Registration	563	2,040	(1,477)
Annual dues	200	196	4
Lodging	201	6	195
Health and first aid	15	-	15
Food	-	10	(10)
Safety clothing	-	354	(354)
	<u>19,787</u>	<u>19,841</u>	<u>(54)</u>
Depreciation:			
Vehicle depreciation	4,273	4,273	-
Engineering equipment depreciation	-	1,480	(1,480)
	<u>4,273</u>	<u>5,753</u>	<u>(1,480)</u>
Fuels:			
Oil	13	-	13
Gas	290	265	25
	<u>303</u>	<u>265</u>	<u>38</u>
Supplies:			
Supplies	573	1,068	(495)
Data processing supplies	-	177	(177)
	<u>573</u>	<u>1,245</u>	<u>(672)</u>
Maintenance:			
Vehicle maintenance	68	38	30
Equipment and machine maintenance	284	674	(390)
Computer maintenance	668	764	(96)
	<u>1,020</u>	<u>1,476</u>	<u>(456)</u>

# MARSHALLTOWN WATER WORKS

## Engineering Expenses (Continued) Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Contract services:			
Engineering services	6,529	-	6,529
One call phone lines	1,270	630	640
One call locate charges	-	905	(905)
	<u>7,799</u>	<u>1,535</u>	<u>6,264</u>
Total engineering	\$ <u>120,455</u>	<u>107,740</u>	<u>12,715</u>

# MARSHALLTOWN WATER WORKS

## Construction and Maintenance Expenses Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ <u>171,723</u>	<u>163,476</u>	<u>8,247</u>
Employee benefits:			
Health insurance	26,830	26,640	190
Pension	9,485	9,281	204
Social security	12,592	11,991	601
Life insurance	651	651	-
Registration	20	250	(230)
Travel	6	-	6
Food	27	81	(54)
Annual dues	-	20	(20)
Lodging	201	-	201
Medical	185	167	18
Safety clothing	413	3,519	(3,106)
Safety training	<u>2,356</u>	<u>-</u>	<u>2,356</u>
	<u>52,766</u>	<u>52,600</u>	<u>166</u>
Utilities:			
Gas	<u>10</u>	<u>11</u>	<u>(1)</u>
Depreciation:			
Distribution depreciation	84,613	86,910	(2,297)
Booster station depreciation	2,343	-	2,343
Vehicle depreciation	12,765	13,218	(453)
Equipment depreciation	<u>21,030</u>	<u>14,994</u>	<u>6,036</u>
	<u>120,751</u>	<u>115,122</u>	<u>5,629</u>
Fuels:			
Gas	2,006	2,932	(926)
Oil	621	336	285
Grease	60	47	13
Diesel fuel	2,771	2,866	(95)
LP gas	<u>23</u>	<u>17</u>	<u>6</u>
	<u>5,481</u>	<u>6,198</u>	<u>(717)</u>

# MARSHALLTOWN WATER WORKS

## Construction and Maintenance Expenses (Continued) Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	12,165	18,472	(6,307)
Shop supplies	2,476	1,558	918
Leak repair supplies	12,983	20,936	(7,953)
Hydrant and valve supplies	4,566	4,180	386
CIWA meter pit supplies	1,210	-	1,210
	<u>33,400</u>	<u>45,146</u>	<u>(11,746)</u>
Maintenance:			
Vehicle maintenance	363	5,240	(4,877)
Equipment maintenance	5,923	4,042	1,881
Tower maintenance	1,405	306	1,099
Reservior maintenance	11	352	(341)
Well field maintenance	1,456	6,678	(5,222)
Booster station maintenance	1,866	70	1,796
CIWA meter pit repairs	252	5	247
	<u>11,276</u>	<u>16,693</u>	<u>(5,417)</u>
 Total construction and maintenance	<u>\$ 395,407</u>	<u>399,246</u>	<u>(3,839)</u>

# MARSHALLTOWN WATER WORKS

## Customer Service and Meter Expense Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ 88,569	91,867	(3,298)
Employee benefits:			
Health insurance	16,570	13,120	3,450
Pension	5,093	5,251	(158)
Social security	6,405	6,754	(349)
Life insurance	391	391	-
Registrations	-	150	(150)
Safety clothing	99	2,555	(2,456)
Safety training	2,356	-	2,356
Medical	68	72	(4)
	<u>30,982</u>	<u>28,293</u>	<u>2,689</u>
Depreciation:			
Vehicle depreciation	1,615	4,210	(2,595)
Meter depreciation	46,599	48,012	(1,413)
	<u>48,214</u>	<u>52,222</u>	<u>(4,008)</u>
Fuels:			
Gas	2,423	2,464	(41)
Oil	29	13	16
LP gas	28	38	(10)
	<u>2,480</u>	<u>2,515</u>	<u>(35)</u>
Maintenance:			
Vehicle maintenance	218	1,076	(858)
Equipment maintenance	1,330	997	333
Computer maintenance	38	-	38
Safety equipment maintenance	468	3	465
	<u>2,054</u>	<u>2,076</u>	<u>(22)</u>
Supplies:			
General supplies	3,030	2,990	40
Meter repair supplies	1,307	1,751	(444)
Shop supplies	353	366	(13)
Service repair supplies	256	933	(677)
	<u>4,946</u>	<u>6,040</u>	<u>(1,094)</u>
Total customer service and meter expense	\$ <u>177,245</u>	<u>183,013</u>	<u>(5,768)</u>

# MARSHALLTOWN WATER WORKS

## Administrative and Non-Operating Expenses Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ 219,138	207,603	11,535
Employee benefits:			
Health insurance	17,176	18,168	(992)
Pension	12,601	11,614	987
Social security	16,179	18,001	(1,822)
Life insurance	835	841	(6)
Medical	44	-	44
Mileage	2,358	2,228	130
Registration fees	360	563	(203)
Dues and subscriptions	4,474	4,553	(79)
Tuition	17	-	17
Lodging	298	286	12
Food	679	795	(116)
Safety clothing	120	-	120
Travel	43	-	43
	<u>55,184</u>	<u>57,049</u>	<u>(1,865)</u>
Utilities:			
Electricity	7,075	6,668	407
Gas	3,980	3,501	479
Internet expense	2,050	-	2,050
Telephone	4,357	5,596	(1,239)
	<u>17,462</u>	<u>15,765</u>	<u>1,697</u>
Depreciation:			
Building depreciation	13,875	13,568	307
Equipment depreciation	31,603	31,843	(240)
	<u>45,478</u>	<u>45,411</u>	<u>67</u>
General supplies:			
Office supplies	2,903	5,732	(2,829)
Administrative supplies	143	310	(167)
Data processing supplies	1,664	11	1,653
General supplies	4,961	1,286	3,675
Postage	15,031	19,992	(4,961)
Cleaning supplies	-	43	(43)
Health and first aid	404	288	116
	<u>25,106</u>	<u>27,662</u>	<u>(2,556)</u>

# MARSHALLTOWN WATER WORKS

## Administrative and Non-Operating Expenses (Continued) Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	13,068	6,945	6,123
Office machine maintenance	2,660	2,681	(21)
Building maintenance	2,452	4,506	(2,054)
Heating and air conditioner maintenance	67	639	(572)
	<u>18,247</u>	<u>14,771</u>	<u>3,476</u>
Administrative expenses:			
Insurance	68,661	72,068	(3,407)
Bad debt expense	-	21	(21)
Banking services	1,962	2,524	(562)
Legal services	4,626	3,993	633
Cleaning services	4,971	5,327	(356)
Accounting services	6,064	6,794	(730)
Contract services	350	350	-
Computer programming	94	6,587	(6,493)
Public notices	6,024	6,823	(799)
Operation fees and permits	4,177	3,560	617
	<u>96,929</u>	<u>108,047</u>	<u>(11,118)</u>
Total administrative expenses	<u>\$ 477,544</u>	<u>476,308</u>	<u>1,236</u>
Non-operating expenses:			
Interest expense	\$ 75,660	75,393	267
Board compensation	900	900	-
Returned checks	224	167	57
Overpayments	8,542	-	8,542
Economic development	4,000	4,000	-
	<u>89,326</u>	<u>80,460</u>	<u>8,866</u>
Total non-operating expenses	<u>\$ 89,326</u>	<u>80,460</u>	<u>8,866</u>

# MARSHALLTOWN WATER WORKS

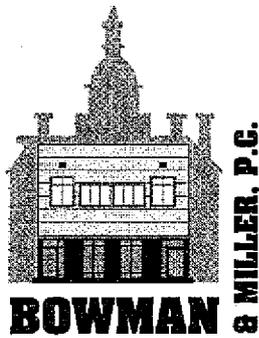
## Summary of Indebtedness

Year Ended June 30, 2004

	<u>Revenue Bonds</u>
Date of issue	December 1, 1998
Interest rates	3.40 - 4.00%
Original amount	\$ <u>3,000,000</u>
Balance, beginning of year	\$ 1,660,000
Issued during year	-
Redeemed during year	<u>305,000</u>
Balance, end of year	\$ <u>1,355,000</u>
Current portion (due in one year)	\$ <u>315,000</u>

Year Ended June 30, 2003

	<u>Revenue Bonds</u>
Date of issue	December 1, 1998
Interest rates	3.40 - 4.00%
Original amount	\$ <u>3,000,000</u>
Balance, beginning of year	\$ 1,950,000
Issued during year	-
Redeemed during year	<u>290,000</u>
Balance, end of year	\$ <u>1,660,000</u>
Current portion (due in one year)	\$ <u>305,000</u>



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report on Compliance  
and on Internal Control over Financial Reporting

To the Board of Trustees of the  
Marshalltown Water Works  
Marshalltown, Iowa

We have audited the financial statements of the Marshalltown Water Works, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated August 13, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marshalltown Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works' operations for the years ended June 30, 2004 and 2003 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Water Works. Since our audits were 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Marshalltown Water Works' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Marshalltown Water Works and other parties to whom the Marshalltown Water Works may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
August 13, 2004

# MARSHALLTOWN WATER WORKS

## Schedule of Findings Year Ended June 30, 2004

### Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions 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.

### Part II: Other Findings Related to Required Statutory Reporting:

- 04-II-A Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- 04-II-B Certified Budget - Expenditures during the years ended June 30, 2004 and 2003, did not exceed the amounts budgeted.
- 04-II-C Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 04-II-D Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.
- 04-II-E Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 04-II-F Bond Coverage - Security bond coverage of Water Works 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.
- 04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-II-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.
- 04-II-I Revenue Bonds - The Water Works has established the sinking and reserve accounts required by the water revenue bond resolution.

# MARSHALLTOWN WATER WORKS

## Audit Staff

This report was prepared by:

BOWMAN AND MILLER, P.C.  
Certified Public Accountants  
Marshalltown, Iowa

### Personnel:

Elizabeth A. Miller, CPA, Principal

Debra J. Osborn, CPA, Principal

## NEWS RELEASE

Bowman and Miller, P.C. today released an audit report on the Marshalltown Water Works of Marshalltown, Iowa.

Bowman and Miller, P.C. reported that the Marshalltown Water Works' revenues totaled \$3,287,350 for the year ended June 30, 2004, a 19.34 percent increase from 2003. The revenues included \$3,144,050 of water revenue and \$23,229 of interest earned.

Marshalltown Water Works' expenditures for the year totaled \$2,733,399, a 2.1 percent increase from the year 2003. The expenditures included \$1,473,422 for water plant operation and maintenance, \$395,407 for construction and maintenance and \$566,870 for administrative and non-operating expenses.

A copy of the audit report is available for review in the office of the Auditor of State and at the Marshalltown Water Works office at 205 East State Street.