

**MARSHALLTOWN WATER WORKS**

**Independent Auditors' Reports  
Financial Statements and  
Supplementary Information  
Schedule of Findings  
June 30, 2005 and 2004**

# 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
Notes 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 Internal Control over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	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
Jerry Young	Trustee	May 1, 2008
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

## Independent Auditors' Report

To the Board of Trustees  
Marshalltown Water Works  
Marshalltown, Iowa

We have audited the accompanying balance sheets of the Marshalltown Water Works, Marshalltown, Iowa as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 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 opinions.

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, 2005 and 2004, 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, 2005 and 2004, 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 18, 2005, on our consideration of the Marshalltown Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 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 required 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 financial statements taken as a whole. The other 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 our 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 18, 2005

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## MANAGEMENT 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, 2005 and 2004.

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

### FINANCIAL HIGHLIGHT AND NOTEWORTHY ISSUES

- ◆ The Water Works installed all security devices required under the Homeland Security Act at the water treatment plant location.
- ◆ The Water Works completed and has in operation its newest well and has changed the location of roads to better control access to the well field.
- ◆ Due to some water quality issues, the Distribution System received some changes to better control the quality within the system.
- ◆ The Water Works began a research project, with the permission of the Iowa Department of Natural Resources, to evaluate the use of sodium chlorite to control nitrification within the distribution system. The research results were extremely good, and we are designing the addition of this chemical to our system. The Marshalltown Water Works will be the only Utility in Iowa to use this system, and we are now sharing our information with others within the water industry.
- ◆ The Marshalltown Water Works set up a Capital Reserve Account to finance a new one-million gallon water tower to be constructed in the 2009 fiscal year using the cash released from the bond fund and the Capital Reserve Account.
- ◆ The Marshalltown Water Works has been negotiating a new contract with Central Iowa Water Association, but last November Central Iowa stopped that process and nothing further has come of those negotiations.

### 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.

The Supplementary Information provides detailed information about the balance sheets and expense accounts.

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The Balance Sheets include all of the Water Works' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The balance sheets report 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 cover the costs of all services it provides.

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

- ◆ The Water Works' total assets remained consistent over the past twelve months.
- ◆ Income for the Water Works decreased \$100,821 from 2004 and total expenses increased \$140,408, leaving an operating income of \$371,713. After all non-operating income and expenses were recorded; the Water Works reported a change in net assets of \$361,816 for the year ending June 30, 2005.
- ◆ Due to weather conditions, the Water Works' revenues were \$3,156,194, and as a result, operating revenues did not meet the projected three percent increase over the fiscal year 2004. Expenses for the fiscal year 2005 were at eighty-eight percent of budgeted numbers making them below the approved budget as approved by the Board of Trustees in March 2004.

### **DEBT ADMINISTRATION**

- ◆ During the fiscal year 2005, the Marshalltown Water Works made payment against bonded indebtedness of \$315,000 reducing bond indebtedness to \$1,040,000 at June 30, 2005. 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.

### **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 2005 doing those types of activities. The Water Works has an annual fire hydrant replacement program and an annual valve replacement program. The Water Works looks 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 a 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 2005, the Water Works replaced an old water main on South 12<sup>th</sup> Street across Linn Creek with the financial help of FEMA. A new loop was installed on South 12<sup>th</sup> Street to Sunshine Drive to improve the water quality. Several dead-end mains have been replaced by looping to provide better quality.

## **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 it effective on July 1, 2004. These adjustments ranged from a high of 45.8 percent for industrial customers to an 8.8 percent increase for wholesale customers. 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 also 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 Board will not increase rates in 2006.
- ◆ The Water Works has completed Well #15 and we are using it as much as possible. It is a fantastic well, producing enough water to supply the entire town, probably seven or eight months out of the year. The total savings have not been seen yet, but we will keep it in our sights. The plant staff is regularly making comparisons between Well #15 and the rest of the wells.
- ◆ The Water Works has a new billing, accounting, payroll, accounts payable, customer service windows-based computer system. It is operational and we have experienced good success with the new system.

## **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, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
<b><u>ASSETS:</u></b>			
Current assets:			
Cash	\$ 563,359	955,149	(391,790)
Accounts receivable	194,003	190,293	3,710
Other receivables	52,435	59,177	(6,742)
Prepaid expenses	63,252	69,568	(6,316)
Merchandise for resale	-	443	(443)
Restricted assets:			
Sinking fund	<u>30,925</u>	<u>30,685</u>	<u>240</u>
Total current assets	<u>903,974</u>	<u>1,305,315</u>	<u>(401,341)</u>
Investments:			
Capital reserve	500,680	303,246	197,434
Restricted assets:			
Improvement fund	200,000	200,000	-
Reserve fund	<u>350,000</u>	<u>350,000</u>	<u>-</u>
Total investments	<u>1,050,680</u>	<u>853,246</u>	<u>197,434</u>
Capital assets:			
Capital assets	20,880,156	19,992,907	887,249
Accumulated depreciation	<u>(8,824,638)</u>	<u>(8,230,148)</u>	<u>(594,490)</u>
Net capital assets	<u>12,055,518</u>	<u>11,762,759</u>	<u>292,759</u>
Other assets:			
Bond origination fee	<u>4,412</u>	<u>5,978</u>	<u>(1,566)</u>
Total assets	<u>\$ 14,014,584</u>	<u>13,927,298</u>	<u>87,286</u>

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
<b><u>LIABILITIES:</u></b>			
Current liabilities:			
Accounts payable	\$ 76,864	32,851	44,013
Due to other governments:			
Landfill fees	12,637	13,377	(740)
Sewer fees	194,213	213,839	(19,626)
Storm sewer fees	23,984	27,387	(3,403)
Sewer interest	118	88	30
Customer deposits - sewer	77,095	69,130	7,965
Customer deposits - water	50,995	48,895	2,100
Accrued liabilities	134,618	124,487	10,131
Current portion of long-term debt	330,000	315,000	15,000
Total current liabilities	<u>900,524</u>	<u>845,054</u>	<u>55,470</u>
Long-term debt:			
Revenue bonds	1,040,000	1,355,000	(315,000)
Less: current portion	<u>(330,000)</u>	<u>(315,000)</u>	<u>(15,000)</u>
Total long-term liabilities	<u>710,000</u>	<u>1,040,000</u>	<u>(330,000)</u>
Total liabilities	<u>1,610,524</u>	<u>1,885,054</u>	<u>(274,530)</u>
<b><u>NET ASSETS:</u></b>			
Invested in capital assets, net of related debt	11,015,519	10,402,324	613,195
Restricted for revenue note retirement	250,925	265,685	(14,760)
Unrestricted:			
Board designated for capital improvements	500,680	303,246	197,434
Undesignated	<u>636,936</u>	<u>1,070,989</u>	<u>(434,053)</u>
Total net assets	<u>12,404,060</u>	<u>12,042,244</u>	<u>361,816</u>
 Total liabilities and net assets	 <u>\$ 14,014,584</u>	 <u>13,927,298</u>	 <u>87,286</u>

# MARSHALLTOWN WATER WORKS

## Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,275,407	1,292,164	(16,757)
Multi-family	172,587	182,137	(9,550)
Commercial	343,858	352,560	(8,702)
Irrigation	32,391	46,854	(14,463)
Industrial	535,291	565,103	(29,812)
Wholesale	688,587	705,232	(16,645)
Non-metered	548	1,844	(1,296)
City contract services	62,238	61,542	696
Penalties	27,559	24,533	3,026
Customer service	13,298	16,116	(2,818)
Testing laboratory	4,430	8,930	(4,500)
Total operating revenues	<u>3,156,194</u>	<u>3,257,015</u>	<u>(100,821)</u>
Operating expenses:			
Salaries and wages	834,495	850,117	(15,622)
Payroll taxes and benefits	230,417	234,605	(4,188)
Utilities	326,729	267,869	58,860
Fuels	13,336	10,102	3,234
Supplies	69,316	65,462	3,854
Repairs and maintenance	73,570	57,443	16,127
Chemicals	502,483	438,477	64,006
Contract services	9,440	21,560	(12,120)
Insurance	75,319	68,661	6,658
Professional fees	16,893	10,690	6,203
Other operating expense	10,123	20,168	(10,045)
Bad debt expense	60	-	60
Depreciation	622,300	598,919	23,381
Total operating expenses	<u>2,784,481</u>	<u>2,644,073</u>	<u>140,408</u>
Operating income	<u>371,713</u>	<u>612,942</u>	<u>(241,229)</u>

**MARSHALLTOWN WATER WORKS**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets (Continued)**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	32,244	23,229	9,015
Rentals	500	2,100	(1,600)
Gain (loss) on sale of assets	-	2,500	(2,500)
Miscellaneous income	15,073	2,506	12,567
Interest expense	(53,225)	(75,660)	22,435
Miscellaneous expense	(4,489)	(13,666)	9,177
Total non-operating revenues (expenses)	<u>(9,897)</u>	<u>(58,991)</u>	<u>49,094</u>
 Change in net assets	 361,816	 553,951	 (192,135)
 Net assets, beginning	 <u>12,042,244</u>	 <u>11,488,293</u>	 <u>553,951</u>
 Net assets, ending	 \$ <u><u>12,404,060</u></u>	 <u><u>12,042,244</u></u>	 <u><u>361,816</u></u>

# MARSHALLTOWN WATER WORKS

## Statements of Cash Flows Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,167,311	3,267,548
Cash payments to suppliers for goods and services	(1,047,287)	(896,472)
Cash payments to employees and professional contractors for services	<u>(1,074,424)</u>	<u>(1,097,288)</u>
Net cash provided (used) by operating activities	<u>1,045,600</u>	<u>1,273,788</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	856,523	650,000
Purchase of investments	(1,053,957)	(853,246)
Investment income	32,244	23,229
Receipt of rental income	500	2,100
Other operating revenues (expenses)	<u>10,584</u>	<u>(11,161)</u>
Net cash provided (used) in investing activities	<u>(154,106)</u>	<u>(189,078)</u>
Cash flows from capital and related financing activities:		
Payment on revenue bonds	(315,000)	(305,000)
Interest paid on revenue bonds	(53,225)	(75,660)
Acquisition of capital assets	(915,059)	(274,813)
Proceeds from sale of assets	-	5,001
Net cash provided (used) by financing activities	<u>(1,283,284)</u>	<u>(650,472)</u>
Net change in cash and cash equivalents	(391,790)	434,238
Cash and cash equivalents at beginning of year	<u>955,149</u>	<u>520,911</u>
Cash and cash equivalents at end of year	<u>\$ 563,359</u>	<u>955,149</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 371,713	612,942
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	622,300	587,276
Bond origination fees	1,566	1,567
Gain on sale of asset	-	(2,501)

# MARSHALLTOWN WATER WORKS

## Statements of Cash Flows (Continued) Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
(Increase) decrease in assets:		
Accounts receivable	(3,710)	(1,551)
Other receivables	6,742	19,479
Prepaid expenses	6,316	7,072
Merchandise for resale	443	(443)
Sinking fund	(240)	120
Increase (decrease) in liabilities:		
Accounts payable	44,013	(7,958)
Payable to sewer fund	(19,626)	18,221
Payable to landfill fund	(740)	3,981
Payable to storm sewer fund	(3,403)	27,387
Customer deposits-sewer	7,965	3,524
Customer deposits-water	2,100	1,145
Sewer interest	30	(15)
Accrued liabilities	10,131	3,542
	<hr/>	<hr/>
Net cash provided (used) by operating activities	\$ <u>1,045,600</u>	<u>1,273,788</u>

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements June 30, 2005 and 2004

### 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, 2005 and 2004. 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. Capital Assets

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 capital 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, 2005 and 2004

### 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. Cash and Pooled Investments

The Water Works' deposits at June 30, 2005 and 2004 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, 2005 and 2004.

Interest rate risk - The Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued)

June 30, 2005 and 2004

### Note 2. Cash and Pooled Investments (Continued)

invested with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Water Works.

### Note 3. Bonds Payable

Revenue bonds payable at June 30, 2005 and 2004 were \$1,040,000 and \$1,355,000, respectively. Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending <u>June 30</u>	Interest <u>Rate</u>	<u>Principal</u>	<u>Interest</u>
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>1,040,000</u>	<u>83,926</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 2005 and 2004.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued)

June 30, 2005 and 2004

### 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, 2005, 2004, and 2003 were \$424,317, \$434,376, and \$418,921, respectively, while total payrolls for 2005, 2004 and 2003 were \$803,461, 798,597 and \$798,788, 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, 2005, 2004 and 2003 were as follows:

	<u>2005*</u>	<u>2004*</u>	<u>2003*</u>
Vested:			
Active	\$ 272,899	250,760	417,389
Retired	<u>908,090</u>	<u>880,151</u>	<u>956,972</u>
Total vested	1,180,989	1,130,911	1,374,361
Non-vested	<u>602,793</u>	<u>588,404</u>	<u>260,548</u>
Total pension benefit obligations	\$ <u>1,783,782</u>	<u>1,719,315</u>	<u>1,634,909</u>

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued)

June 30, 2005 and 2004

Note 4. Pension and Retirement Benefits (Continued)

	<u>2005*</u>	<u>2004*</u>	<u>2003*</u>
Net assets available for benefits at market value	\$ 1,350,451	1,457,419	1,394,711
(cost 2005: \$1,371,039)			
(cost 2004: \$1,430,170)			
(cost 2003: \$1,593,890)			
Prepaid (unfunded) pension	\$ (433,331)	(261,896)	(240,198)

\*The last actuarial valuation was performed on April 1, 2004. Estimated values have been calculated as of April 1, 2005 and 2003.

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, 2005, 2004 and 2003 totaled \$24,399, \$24,977 and \$24,083, respectively, and the contributions paid by employees totaled \$9,547, \$9,773 and \$9,424, 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>2005*</u>	<u>2004*</u>	<u>2003*</u>
Net assets available for benefits as percentages of the pension benefit obligations	76%	85%	85%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(103%)	(60%)	(65%)
Employer contributions (in accord- ance with actuarially determined requirements) as percentages of covered payroll	5.75%	5.75%	5.75%

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2005 and 2004

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

	<u>2005*</u>	<u>2004*</u>	<u>2003*</u>
Actuarial value of assets as a percentage of the actuarial accrued liability	71%	79%	79%
Ratio of the unfunded actuarial liability to annual covered payroll	130%	87%	100%
Total unfunded actuarial liability	\$ 548,893	378,851	371,485
Actuarial accrued liability	\$ 1,899,344	1,836,270	1,776,196
Actuarial value of plan assets	1,350,451	1,457,419	1,394,711

\*The last actuarial valuation was performed on April 1, 2004. Estimated values have been calculated as April 1, 2005 and 2003.

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, 2005, 2004 and 2003 were \$22,974, \$23,121, and \$22,763, 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, 2005 and 2004

### 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 2005 and 2004.

### Note 7. Capital Assets

Capital assets are stated at cost as follows at June 30:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,113,721	1,113,171
Plant and source of supply	8,711,461	8,175,199
Booster station	161,072	157,260
Distribution system and pipe	8,317,912	8,083,687
Meters	1,248,796	1,240,129
Machinery and equipment	325,101	324,010
Vehicles	195,945	193,741
Capital improvements	54,650	54,650
Capital improvements – buildings	400,870	375,366
Office equipment and furnishings	<u>350,628</u>	<u>275,694</u>
	20,880,156	19,992,907
Less accumulated depreciation	<u>(8,824,638)</u>	<u>(8,230,148)</u>
	\$ <u>12,055,518</u>	<u>11,762,759</u>

Depreciation expense was \$622,300 for the year ended June 30, 2005 and \$587,276 for the year ended June 30, 2004.

### 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, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	234,612	612,488	(377,876)
Water deposits	50,995	48,895	2,100
Less: sinking fund allocation	(30,925)	(30,685)	(240)
	<u>255,312</u>	<u>631,328</u>	<u>(376,016)</u>
Cash held for city:			
Sewer deposit fund	77,213	69,218	7,995
Sewer cash	194,213	213,839	(19,626)
Storm sewer cash	23,984	27,387	(3,403)
Landfill cash	12,637	13,377	(740)
Total cash held for city	<u>308,047</u>	<u>323,821</u>	<u>(15,774)</u>
 Total cash	 \$ <u>563,359</u>	 <u>955,149</u>	 <u>(391,790)</u>
 Capital assets:			
Land	\$ 1,113,721	1,113,171	550
Plant and source of supply	8,711,461	8,175,199	536,262
Accumulated depreciation - plant	(4,775,291)	(4,375,511)	(399,780)
Distribution system and pipe	8,317,911	8,083,687	234,224
Accumulated depreciation - distribution	(2,367,897)	(2,282,515)	(85,382)
Booster station	161,072	157,260	3,812
Accumulated depreciation-booster station	(52,186)	(49,664)	(2,522)
Meters	1,248,796	1,240,129	8,667
Accumulated depreciation - meters	(761,394)	(717,656)	(43,738)
Machinery and equipment	325,101	324,010	1,091
Accumulated depreciation - machinery and equipment	(255,315)	(234,435)	(20,880)
Vehicles	195,946	193,741	2,205
Accumulated depreciation - vehicles	(149,583)	(153,940)	4,357
Capital improvements	54,650	54,650	-
Accumulated depreciation - capital improvements	(14,057)	(11,589)	(2,468)
Capital improvements - buildings	400,870	375,366	25,504
Accumulated depreciation - buildings	(207,706)	(193,426)	(14,280)
Office equipment and furnishings	350,628	275,694	74,934
Accumulated depreciation - office equipment and furnishings	(241,209)	(211,412)	(29,797)
 Net capital assets	 \$ <u>12,055,518</u>	 <u>11,762,759</u>	 <u>292,759</u>

# MARSHALLTOWN WATER WORKS

## Balance Sheets Detail (Continued)

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 58,037	57,161	876
Prepaid computer maintenance	-	8,643	(8,643)
Prepaid billing supplies	<u>5,215</u>	<u>3,764</u>	<u>1,451</u>
 Total prepaid expenses	 <u>\$ 63,252</u>	 <u>69,568</u>	 <u>(6,316)</u>
Other receivables:			
Miscellaneous accounts receivable billings	\$ 20,650	10,950	9,700
Interest receivable	10,998	3,824	7,174
Contract receivables	<u>20,787</u>	<u>44,403</u>	<u>(23,616)</u>
 Total other receivables	 <u>\$ 52,435</u>	 <u>59,177</u>	 <u>(6,742)</u>
Accrued liabilities:			
Accrued sales tax	\$ 16,137	5,934	10,203
Accrued F.I.C.A.	2,933	2,802	131
Accrued payroll	39,521	37,832	1,689
Pre-tax insurance withheld	-	4,942	(4,942)
Accrued pension	1,019	1,113	(94)
Accrued vacation	74,044	71,326	2,718
Insurance withheld	-	(421)	421
Accrued retirement expense	1,006	1,062	(56)
Unreimbursed medical withheld	<u>(42)</u>	<u>(103)</u>	<u>61</u>
 Total accrued liabilities	 <u>\$ 134,618</u>	 <u>124,487</u>	 <u>10,131</u>

# MARSHALLTOWN WATER WORKS

## Treatment Plant Expenses Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ 289,105	283,983	5,122
Employee benefits:			
Health insurance	33,960	33,140	820
Pension	16,893	15,949	944
Social security	21,279	20,577	702
Life insurance	1,145	978	167
Mileage	88	226	(138)
Registration	835	1,188	(353)
Tuition	-	60	(60)
Lodging	309	201	108
Food	-	7	(7)
Safety clothing	(248)	561	(809)
Safety training	2,356	2,356	-
Medical	340	647	(307)
	<u>76,957</u>	<u>75,890</u>	<u>1,067</u>
Utilities:			
Electric	267,641	231,844	35,797
Gas	15,485	14,329	1,156
Internet	69	1,538	(1,469)
Telephone	2,446	2,635	(189)
	<u>285,641</u>	<u>250,346</u>	<u>35,295</u>
Depreciation:			
Plant depreciation	400,319	377,735	22,584
Equipment depreciation	-	2,468	(2,468)
	<u>400,319</u>	<u>380,203</u>	<u>20,116</u>
Fuels:			
Gas	737	406	331
Oil	48	1,396	(1,348)
Grease	-	3	(3)
Diesel fuel	150	85	65
	<u>935</u>	<u>1,890</u>	<u>(955)</u>

# MARSHALLTOWN WATER WORKS

## Treatment Plant Expenses (Continued) Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
<b>Supplies:</b>			
Lab supplies	16,954	13,617	3,337
Plant supplies	1,681	1,448	233
Well supplies	377	7	370
Cleaning supplies	968	576	392
General supplies	902	748	154
Health and first aid	197	72	125
Safety equipment	1,222	-	1,222
	<u>22,301</u>	<u>16,468</u>	<u>5,833</u>
<b>Maintenance:</b>			
Building maintenance	3,675	653	3,022
Machinery maintenance	17,849	11,232	6,617
Computer maintenance	884	2,456	(1,572)
Grounds maintenance	1,937	658	1,279
Well field maintenance	10,596	5,559	5,037
Heating and air maintenance	1,099	2,826	(1,727)
Safety equipment maintenance	-	264	(264)
Vehicle maintenance	306	847	(541)
	<u>36,346</u>	<u>24,495</u>	<u>11,851</u>
<b>Chemicals:</b>			
Pebble-lime	188,219	147,444	40,775
CO2	16,356	15,471	885
CL2	30,645	24,150	6,495
Fluoride	7,955	12,665	(4,710)
Poly-phosphate	5,818	6,870	(1,052)
Polymer	18,960	16,656	2,304
Lime sludge removal	227,856	215,220	12,636
Sodium chlorite	6,674	-	6,674
	<u>502,483</u>	<u>438,476</u>	<u>64,007</u>
<b>Contract services:</b>			
Rentals	26	-	26
Lab services	5,763	1,671	4,092
	<u>5,789</u>	<u>1,671</u>	<u>4,118</u>
<b>Total treatment plant</b>	<b>\$ <u>1,619,876</u></b>	<b><u>1,473,422</u></b>	<b><u>146,454</u></b>

# MARSHALLTOWN WATER WORKS

## Engineering Expenses Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Salaries:			
Engineering salaries	\$ <u>95,554</u>	<u>86,700</u>	<u>8,854</u>
Employee benefits:			
Health insurance	7,185	7,010	175
Pension	5,649	4,985	664
Social security	7,065	6,478	587
Life insurance	419	335	84
Registration	450	563	(113)
Annual dues	210	200	10
Lodging	212	201	11
Health and first aid	-	15	(15)
	<u>21,190</u>	<u>19,787</u>	<u>1,403</u>
Depreciation:			
Vehicle depreciation	<u>3,917</u>	<u>4,273</u>	<u>(356)</u>
	<u>3,917</u>	<u>4,273</u>	<u>(356)</u>
Fuels:			
Oil	15	13	2
Gas	680	290	390
	<u>695</u>	<u>303</u>	<u>392</u>
Supplies:			
Supplies	452	573	(121)
Data processing supplies	67	-	67
	<u>519</u>	<u>573</u>	<u>(54)</u>
Maintenance:			
Vehicle maintenance	507	68	439
Equipment and machine maintenance	-	284	(284)
Computer maintenance	685	668	17
	<u>1,192</u>	<u>1,020</u>	<u>172</u>

# MARSHALLTOWN WATER WORKS

## Engineering Expenses (Continued) Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Contract services:			
Engineering services	1,695	6,529	(4,834)
One call phone lines	80	1,270	(1,190)
One call locate charges	1,876	-	1,876
	<u>3,651</u>	<u>7,799</u>	<u>(4,148)</u>
Total engineering	\$ <u>126,718</u>	<u>120,455</u>	<u>6,263</u>

# MARSHALLTOWN WATER WORKS

## Construction and Maintenance Expenses Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ <u>134,962</u>	<u>171,723</u>	<u>(36,761)</u>
Employee benefits:			
Health insurance	20,345	26,830	(6,485)
Pension	7,991	9,485	(1,494)
Social security	10,197	12,592	(2,395)
Life insurance	668	651	17
Registration	300	20	280
Operation fees and permits	31	-	31
Travel	-	6	(6)
Food	16	27	(11)
Lodging	-	201	(201)
Medical	855	185	670
Safety clothing	1,029	413	616
Safety training	<u>2,356</u>	<u>2,356</u>	<u>-</u>
	<u>43,788</u>	<u>52,766</u>	<u>(8,978)</u>
Utilities:			
Gas	<u>-</u>	<u>10</u>	<u>(10)</u>
Depreciation:			
Distribution depreciation	85,382	84,613	769
Booster station depreciation	2,522	2,343	179
Vehicle depreciation	11,499	12,765	(1,266)
Equipment depreciation	<u>20,880</u>	<u>21,030</u>	<u>(150)</u>
	<u>120,283</u>	<u>120,751</u>	<u>(468)</u>
Fuels:			
Gas	2,750	2,006	744
Oil	621	621	-
Grease	50	60	(10)
Diesel fuel	4,974	2,771	2,203
LP gas	<u>73</u>	<u>23</u>	<u>50</u>
	<u>8,468</u>	<u>5,481</u>	<u>2,987</u>

# MARSHALLTOWN WATER WORKS

## Construction and Maintenance Expenses (Continued) Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	10,602	12,165	(1,563)
Shop supplies	1,899	2,476	(577)
Leak repair supplies	15,618	12,983	2,635
Hydrant and valve supplies	775	4,566	(3,791)
CIWA meter pit supplies	2,033	1,210	823
	<u>30,927</u>	<u>33,400</u>	<u>(2,473)</u>
Maintenance:			
Vehicle maintenance	3,410	363	3,047
Equipment maintenance	9,000	5,923	3,077
Tower maintenance	194	1,405	(1,211)
Reservior maintenance	-	11	(11)
Well field maintenance	1,339	1,456	(117)
Booster station maintenance	654	1,866	(1,212)
CIWA meter pit repairs	2,322	252	2,070
	<u>16,919</u>	<u>11,276</u>	<u>5,643</u>
Total construction and maintenance	<u>\$ 355,347</u>	<u>395,407</u>	<u>(40,060)</u>

# MARSHALLTOWN WATER WORKS

## Customer Service and Meter Expense Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ 85,228	88,569	(3,341)
Employee benefits:			
Health insurance	17,705	16,570	1,135
Pension	5,121	5,093	28
Social security	6,178	6,405	(227)
Life insurance	315	391	(76)
Safety clothing	260	99	161
Safety training	2,356	2,356	-
Medical	-	68	(68)
	<u>31,935</u>	<u>30,982</u>	<u>953</u>
Depreciation:			
Vehicle depreciation	7,498	1,615	5,883
Meter depreciation	43,738	46,599	(2,861)
	<u>51,236</u>	<u>48,214</u>	<u>3,022</u>
Fuels:			
Gas	3,188	2,423	765
Oil	50	29	21
LP gas	-	28	(28)
	<u>3,238</u>	<u>2,480</u>	<u>758</u>
Maintenance:			
Vehicle maintenance	2,264	218	2,046
Equipment maintenance	720	1,330	(610)
Computer maintenance	-	38	(38)
Safety equipment maintenance	(468)	468	(936)
	<u>2,516</u>	<u>2,054</u>	<u>462</u>
Supplies:			
General supplies	3,026	3,030	(4)
Meter repair supplies	1,670	1,307	363
Shop supplies	539	353	186
Service repair supplies	(60)	256	(316)
	<u>5,175</u>	<u>4,946</u>	<u>229</u>
Total customer service and meter expense	\$ <u>179,328</u>	<u>177,245</u>	<u>2,083</u>

# MARSHALLTOWN WATER WORKS

## Administrative and Non-Operating Expenses Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ 229,646	219,138	10,508
Employee benefits:			
Health insurance	12,680	17,176	(4,496)
Pension	13,416	12,601	815
Social security	16,745	16,179	566
Life insurance	843	835	8
Medical	-	44	(44)
Operational fees and permits	1,389	-	1,389
Mileage	2,349	2,358	(9)
Registration fees	325	360	(35)
Dues and subscriptions	7,729	4,474	3,255
Tuition	-	17	(17)
Lodging	435	298	137
Food	636	679	(43)
Safety clothing	-	120	(120)
Travel	-	43	(43)
	<u>56,547</u>	<u>55,184</u>	<u>1,363</u>
Utilities:			
Electricity	7,138	7,075	63
Gas	4,154	3,980	174
Internet expense	100	2,050	(1,950)
Telephone	4,937	4,357	580
Postage	17,658	15,031	2,627
Public notices	7,101	6,024	1,077
	<u>41,088</u>	<u>38,517</u>	<u>2,571</u>
Depreciation:			
Building depreciation	16,748	13,875	2,873
Equipment depreciation	29,797	31,603	(1,806)
	<u>46,545</u>	<u>45,478</u>	<u>1,067</u>
General supplies:			
Office supplies	2,616	2,903	(287)
Administrative supplies	-	143	(143)
Data processing supplies	2,033	1,664	369
General supplies	5,441	4,961	480

# MARSHALLTOWN WATER WORKS

## Administrative and Non-Operating Expenses (Continued) Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
General supplies (continued):			
Health and first aid	304	404	(100)
	10,394	10,075	319
Maintenance:			
Computer maintenance	13,941	13,068	873
Office machine maintenance	970	2,660	(1,690)
Building maintenance	1,571	2,452	(881)
Heating and air conditioner maintenance	115	67	48
	16,597	18,247	(1,650)
Administrative expenses:			
Insurance	75,319	68,661	6,658
Bad debt expense	60	-	60
Banking services	1,965	1,962	3
Legal services	11,193	4,626	6,567
Cleaning services	5,068	4,971	97
Accounting services	5,700	6,064	(364)
Contract services	-	350	(350)
Computer programming	600	94	506
Operation fees and permits	-	4,177	(4,177)
Engineering services	2,490	-	2,490
	102,395	90,905	11,490
Total administrative expenses	\$ 503,212	477,544	25,668
Non-operating expenses:			
Interest expense	\$ 53,225	75,660	(22,435)
Board compensation	900	900	-
Returned checks	(390)	224	(614)
Overpayments	(21)	8,542	(8,563)
Economic development	4,000	4,000	-
	57,714	89,326	(31,612)
Total non-operating expenses	\$ 57,714	89,326	(31,612)

# MARSHALLTOWN WATER WORKS

## Summary of Indebtedness

Year Ended June 30, 2005

	<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	\$ 1,355,000
Issued during year	-
Redeemed during year	<u>315,000</u>
Balance, end of year	\$ <u>1,040,000</u>
Current portion (due in one year)	\$ <u>330,000</u>

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>

Independent Auditors' Report on  
Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on Audits  
of Financial Statements Performed in Accordance with  
Government Auditing Standards

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, 2005 and 2004, and have issued our report thereon dated August 18, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 an opinion 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.

Compliance and Other matters

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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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, 2005 and 2004 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.

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 18, 2005

# MARSHALLTOWN WATER WORKS

## Schedule of Findings Years Ended June 30, 2005 and 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:

- 05-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 years ended June 30, 2005 and 2004.
- 05-II-B Certified Budget - Expenditures during the years ended June 30, 2005 and 2004, did not exceed the amounts budgeted.
- 05-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.
- 05-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.
- 05-II-E Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 05-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.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-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.
- 05-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 \$3,204,011 for the year ended June 30, 2005, a 2.54 percent decrease from 2004. The revenues included \$3,048,121 of water revenue and \$32,244 of interest earned.

Marshalltown Water Works' expenditures for the year totaled \$2,842,195, a 3.98 percent increase from the year 2004. The expenditures included \$1,619,876 for water plant operation and maintenance, \$355,347 for construction and maintenance and \$560,926 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.