

**Glenwood Municipal Utilities
Independent Auditors' Report
Basic Financial Statements and
Supplementary Information
Schedule of Findings**

June 30, 2005 and 2004

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**Glenwood Municipal Utilities
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Dean	Trustee/Chairperson	January 2011
Darrell Mayberry	Trustee	January 2009
Doug Meggison	Trustee	January 2007
Rosemarie McDuffie	Secretary	Indefinite

September 15, 2005

Independent Auditors' Report

To the Board of Trustees
Glenwood Municipal Utilities
Glenwood, IA 51534

We have audited the accompanying financial statements of the business type activities and each major fund of the Glenwood Municipal Utilities, a component unit of the City of Glenwood, as of and for the years ended June 30, 2005. These financial statements are the responsibility of the Glenwood Municipal Utilities management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of the Glenwood Municipal Utilities at June 30, 2005 and 2004, and the changes in its financial position and the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated September 15, 2005, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, 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 audit.

Continued...

September 15, 2005
Glenwood Municipal Utilities
Independent Auditors' Report

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and pages 25 through 26, 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 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 through 8 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Information in Schedules 1, 2 and 3 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Information in Schedules 4, 5, 6, 7 and 8, relating to gallons pumped, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Glenwood Municipal Utilities Management's discussion and analysis

Glenwood Municipal Utilities provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utilities financial statements, which follow.

Financial Highlights

- The Utilities total water and sewer operating revenues increased 6.6 %, or \$111,124, from fiscal 2004 to fiscal 2005.
- The Utilities total water and sewer operating expenses increased 14.2 %, or \$209,112, from fiscal 2004 to fiscal 2005.
- The Utilities net assets increased 2 %, or \$118,872, from fiscal 2004 to fiscal 2005.
- The Utilities total water and sewer operating income decreased (47.7) %, or \$(97,988), from fiscal 2004 to fiscal 2005.

Using This Annual Report

The Glenwood Municipal Utilities is a multiple fund and presents its financial statements using accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Glenwood Municipal Utilities basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Utilities financial activities.

The Statement of Net Assets presents information on the Utilities assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utilities operating revenues and expenses, non-operating revenues and expenses and whether the Utilities financial position has improved or deteriorated as a result of the years activities.

The Statement of Cash Flows presents the change in the Utilities cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utilities financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Utilities

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utilities financial position. The Utilities net assets for fiscal 2005 totaled approximately \$6,152,169. This compares to approximately \$6,033,297 for fiscal 2004. A summary of the Utilities net assets is presented below.

	Net Assets	
	June 30,	
	<u>2005</u>	<u>2004</u>
Invested in capital assets, net of related debt	\$3,827,101	\$4,013,818
Restricted for: Customer Deposits	100,660	89,230
Unrestricted	(143,043)	(437,202)
Contributed Capital	<u>2,367,451</u>	<u>2,367,451</u>
Net Assets	<u>\$6,152,169</u>	<u>\$6,033,297</u>

The largest portion of the Utilities net assets is invested in capital assets - (62 %, e.g., land, buildings, equipment and machinery), less the related debt portion of net asset. These are resources allocated to capital assets. The next is unrestricted and contributed capital of (36 %) that can be used to meet the Utilities obligations as they come due, followed by restricted (2 %, e.g., customer water/sewer deposits).

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for water and sewer sales and charges for services for customers attached to the appropriate systems including Glenwood, Pacific Junction and outlying areas. Operating expenses are expenses paid to operate the appropriate water and sewer systems and facilities. Non-operating revenues and expenses are for interest income and expense, rent, fees and penalties and parts sales. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ending June 30, 2005 is presented below:

	Changes in Net Assets	
	Year ended June 30,	
	<u>2005</u>	<u>2004</u>
Operating revenues		
Water Sales	\$ 788,394	\$ 831,154
Sewer Sales	944,157	786,532
Charges for services	<u>53,959</u>	<u>57,700</u>
Total operating revenues	\$1,786,510	\$1,675,386

	<u>2005</u>	<u>2004</u>
Operating expenses		

Salaries	254,261	275,515
Employee benefits	85,140	77,577
Contracted services	189,661	212,300
Utilities	110,300	89,801
Telephone	15,471	17,511
Chemicals	50,675	48,802
Supplies	15,263	22,491
Computer expenses	8,031	6,999
Office supplies	13,207	14,418
Postage and freight	12,115	12,405
Insurance	42,591	39,095
Repairs and maintenance	91,144	83,878
Legal and accounting	5,050	5,871
Board member fees	1,500	1,750
Engineering	10,733	11,644
Leak detection	0	0
Miscellaneous	15,054	12,392
Depreciation	<u>759,141</u>	<u>537,776</u>
Total operating expenses	1,679,337	1,470,225
Operating income	107,173	205,161
Non-operating expenses		
Interest income	12,653	11,525
Interest expense	(58,660)	(65,180)
Rent	13,368	13,866
Miscellaneous	2,014	7,767
Collection fees	4,841	4,402
Surcharges	3,190	3,246
Penalty charges	27,379	16,530
Merchandise and parts sales	16,211	17,066
Cost of merchandise and parts	<u>(9297)</u>	<u>(8,535)</u>
Net non-operating revenues (expenses)	11,699	687
Changes in net assets	118,872	205,848
Net assets, beginning of year	<u>6,033,297</u>	<u>5,827,449</u>
Net assets, end of year	<u>\$6,152,169</u>	<u>\$6,033,297</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a negative year with a decrease in the net assets at the end of the fiscal year.

In fiscal 2005, operating revenues increased by \$111,124, or 6.6 %, primarily with sewer revenue due in part to an increase in rates. Operating expenses increased by \$209,112, or 14.2 %, primarily a result of operations, inflation and infrastructure repairs.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes water and sewer sales and assessments reduced by payments for operations and to suppliers. Cash used from capital includes interest income. Cash used by invested activities includes penalties, charges and rent payments.

Capital Assets

At June 30, 2005, the Utilities had approximately \$4,447,005 invested in capital assets, net of accumulated depreciation of approximately \$17,151,532. Depreciation charges totaled \$759,141 for fiscal 2005. More detailed information about the Utilities capital assets is presented in Exhibit A of the Audit Report ending fiscal June 30, 2005.

Long-Term Debt

At June 30, 2005, the Utilities had \$619,905 in debt outstanding, a decrease of \$531,002 from 2004. The table below summarizes outstanding debt by type.

	June 30,	
	<u>2005</u>	<u>2004</u>
Long-Term Liabilities		
Water revenue notes	0	455,000
Sewer revenue notes, less current portion	<u>619,904</u>	<u>695,907</u>
Totals	<u>\$619,904</u>	<u>\$1,150,907</u>

Additional information about the Utilities long-term debt is presented in Exhibit A of the Audit Report ending fiscal June 30, 2005.

Economic Factors

Glenwood Municipal Utilities continued to improve its financial position during the current fiscal year. However, the current condition of the economy continues to be a concern for Utilities officials. Some of the realities that may potentially become challenges for the Utilities to meet are:

- Facilities of the Utilities require constant maintenance and upkeep with infrastructure.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain operational and efficient technology at a reasonable cost.
- Continuing the productive and efficient operations for the Utilities as well as the sound business decisions needed with an outlook to the futures demands and community betterment.

The Utilities anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Utilities ability to react to unknown issues.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Utilities finances and to show the Utilities accountability for the money it receives. If you have questions about this report or need additional financial information, contact Glenwood Municipal Utilities, 107 ½ South Locust Street, Glenwood, Iowa.

Basic Financial Statements

**Glenwood Municipal Utilities
Combining Statement of Net Assets
June 30, 2005
(With Comparative Totals for 2004)**

ASSETS

	Water	Sewer	Total 2005	Total 2004
Current Assets				
Unrestricted				
Cash	\$ 401,864	298,462	700,326	411,587
Investments	505,159	-	505,159	-
Accounts receivable - City of Glenwood	71,924	88,759	160,683	155,268
Accounts receivable - City of Pacific Junction	15,830	-	15,830	14,267
Accounts receivable - repairs	4,943	-	4,943	3,210
Unbilled usage	42,948	41,917	84,865	81,959
Inventory	16,728	1,278	18,006	17,634
Prepaid Insurance	-	-	-	40,774
Refund receivable	11,497	-	11,497	-
Total unrestricted current assets	1,070,893	430,416	1,501,309	724,699
Restricted				
Customer deposits	100,660	-	100,660	89,230
Revenue notes, sinking fund	-	125,400	125,400	557,885
Principal and interest reserve fund	-	112,651	112,651	210,651
Replacement and maintenance reserve fund	-	158,640	158,640	158,640
Total restricted current assets	100,660	396,691	497,351	1,016,406
Total current assets	1,171,553	827,107	1,998,660	1,741,105
Property and Equipment				
Land	71,621	-	71,621	71,621
Buildings	1,689,475	5,663,200	7,352,675	7,350,526
Machinery	5,337,407	8,215,761	13,553,168	13,508,347
Equipment	256,122	364,950	621,072	621,072
	7,354,626	14,243,911	21,598,537	21,551,566
Less accumulated depreciation	4,674,998	12,476,534	17,151,532	16,392,391
	2,679,628	1,767,377	4,447,005	5,159,175
Other Assets				
Contract receivable - Pacific Junction	26,521	-	26,521	32,949
Construction in progress	8,715	487,672	496,387	359,700
	35,236	487,672	522,908	392,649
	\$ 3,886,417	3,082,156	6,968,573	7,292,929

**Glenwood Municipal Utilities
Combining Statement of Net Assets
June 30, 2005
(With Comparative Totals for 2004)**

LIABILITIES AND EQUITY

	Water	Sewer	Total 2005	Total 2004
Current Liabilities				
Payable from unrestricted current assets:				
Accounts payable	\$ 21,223	33,282	54,505	1,429
Recycling fees payable - City of Glenwood	5,423	-	5,423	2,728
Sewer fees payable - City of Pacific Junction	13,645	-	13,645	7,685
Sales tax payable	4,114	755	4,869	-
Accrued wages and vacation payable	11,760	5,638	17,398	9,382
Accrued interest payable	-	-	-	3,821
Current portion of long-term debt	-	81,858	81,858	182,960
Total payables from unrestricted current assets	56,165	121,533	177,698	196,163
Payable from restricted current assets:				
Customer deposits	100,660	-	100,660	89,230
Total current liabilities	156,825	121,533	278,358	297,235
Long-Term Liabilities				
Water revenue notes, less current portion, net of unamortized note discount of \$5,550	-	-	-	344,450
Sewer revenue notes, less current portion	-	538,046	538,046	617,947
	-	538,046	538,046	962,397
Net Assets				
Invested in capital assets, net of related debt	2,679,628	1,147,473	3,827,101	4,013,818
Restricted for:				
Customer deposits	100,660	(1,092,347)	100,660	89,230
Unrestricted	949,304	(1,174,205)	(143,043)	(437,202)
Contributed Capital	-	2,367,451	2,367,451	2,367,451
	3,729,592	2,422,577	6,152,169	6,033,297
	\$ 3,886,417	3,082,156	6,968,573	7,292,929

See accompanying notes to financial statements

Glenwood Municipal Utilities
Combining Statement of Revenues, Expenses and
Changes in Net Assets
June 30, 2005
(With Comparative Totals for 2004)

	<u>Water</u>	<u>Sewer</u>	<u>Total 2005</u>	<u>Total 2004</u>
Operating Revenues				
Water sales	\$ 788,394	-	788,394	831,154
Sewer sales	-	944,157	944,157	786,532
Charges for services	<u>39,474</u>	<u>14,485</u>	<u>53,959</u>	<u>57,700</u>
Total operating revenues	827,868	958,642	1,786,510	1,675,386
Operating Expenses				
Salaries	176,722	77,539	254,261	275,515
Employee benefits	64,056	21,084	85,140	77,577
Contracted services	-	189,661	189,661	212,300
Utilities	62,130	48,170	110,300	89,801
Telephone	12,472	2,999	15,471	17,511
Chemicals	49,664	1,011	50,675	48,802
Supplies	5,318	9,945	15,263	22,491
Computer expenses	3,899	4,132	8,031	6,999
Office supplies	6,764	6,443	13,207	14,418
Postage and freight	6,057	6,058	12,115	12,405
Insurance	27,130	15,461	42,591	39,095
Repairs and maintenance	64,038	27,106	91,144	83,878
Legal and accounting	1,750	3,300	5,050	5,871
Board member fees	750	750	1,500	1,750
Engineering	3,009	7,724	10,733	11,644
Miscellaneous	10,817	4,237	15,054	12,392
Depreciation	<u>238,952</u>	<u>520,189</u>	<u>759,141</u>	<u>537,776</u>
Total operating expenses	733,528	945,809	1,679,337	1,470,225
Operating income	94,340	12,833	107,173	205,161
Non-operating Revenues (Expenses)				
Interest income	8,987	3,666	12,653	11,525
Interest expense	(22,011)	(36,649)	(58,660)	(65,180)
Rent	12,869	499	13,368	13,866
Miscellaneous	1,671	343	2,014	7,767
Collection fees	4,841	-	4,841	4,402
Surcharges	3,190	-	3,190	3,246
Penalty charges	14,136	13,243	27,379	16,530
Merchandise and part sales	16,211	-	16,211	17,066
Cost of merchandise and parts	<u>(9,297)</u>	<u>-</u>	<u>(9,297)</u>	<u>(8,535)</u>
Net non-operating revenues (expenses)	30,597	(18,898)	11,699	687
Changes in net assets	124,937	(6,065)	118,872	205,848
Net assets, beginning of year	<u>3,604,655</u>	<u>2,428,642</u>	<u>6,033,297</u>	<u>5,827,449</u>
Net assets, end of year	\$ <u>3,729,592</u>	<u>2,422,577</u>	<u>6,152,169</u>	<u>6,033,297</u>

See accompanying notes to financial statements

**Glenwood Municipal Utilities
Combining Statements of Cash Flows
June 30, 2005
(With Comparative Totals for 2004)**

	<u>Water</u>	<u>Sewer</u>	<u>Total 2005</u>	<u>Total 2004</u>
Cash Flows From Operating Activities:				
Cash received from customers	\$ 806,818	956,206	1,763,024	1,647,459
Cash payments for goods and services	(247,314)	(299,817)	(547,131)	(708,348)
Cash payments to employees	<u>(173,577)</u>	<u>(72,668)</u>	<u>(246,245)</u>	<u>(273,286)</u>
Net cash provided by operating activities	385,927	583,721	969,648	665,825
Cash Flows From Capital and Related Financial Activities:				
Acquisition and construction of capital assets	(40,784)	(142,874)	(183,658)	(350,852)
Principal paid on revenue notes	(455,000)	(76,003)	(531,003)	(173,194)
Interest paid on revenue notes	<u>(20,281)</u>	<u>(36,649)</u>	<u>(56,930)</u>	<u>(64,912)</u>
Net cash used for capital and related financing activities	(516,065)	(255,526)	(771,591)	(588,958)
Cash Flows From Investing Activities:				
Interest received on investments	8,987	3,666	12,653	11,527
Other investment income received	43,620	14,085	57,705	54,340
Payments received on contract receivable	6,428	-	6,428	6,240
Purchase of investments	<u>(505,159)</u>	<u>-</u>	<u>(505,159)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(446,124)</u>	<u>17,751</u>	<u>(428,373)</u>	<u>72,107</u>
Net increase (decrease) in Cash	(576,262)	345,946	(230,316)	148,974
Cash, Beginning of Year	<u>1,078,786</u>	<u>349,207</u>	<u>1,427,993</u>	<u>1,279,019</u>
Cash, End of Year	<u>\$ 502,524</u>	<u>695,153</u>	<u>1,197,677</u>	<u>1,427,993</u>
Cash Consists of the Following Amounts:				
Unrestricted:				
Cash	\$ 401,864	298,462	700,326	411,587
Restricted:				
Customer deposits	100,660	-	100,660	89,230
Revenue notes sinking fund	-	125,400	125,400	557,885
Principal and interest reserve account	-	112,651	112,651	210,651
Replacement and maintenance fund	<u>-</u>	<u>158,640</u>	<u>158,640</u>	<u>158,640</u>
	<u>\$ 502,524</u>	<u>695,153</u>	<u>1,197,677</u>	<u>1,427,993</u>

**Exhibit C
Continued**

**Glenwood Municipal Utilities
Combining Statements of Cash Flows
June 30, 2005
(With Comparative Totals for 2004)**

	Water	Sewer	Total 2005	Total 2004
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	\$ 94,340	12,833	107,173	205,161
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	238,952	520,189	759,141	537,776
Net (increase) decrease in:				
Accounts receivable	(3,365)	(5,346)	(8,711)	(9,856)
Unbilled usage	(5,816)	2,910	(2,906)	(14,991)
Inventories	437	(809)	(372)	(3,080)
Prepaid insurance	25,311	15,463	40,774	(40,774)
Refund receivable	(11,497)	-	(11,497)	-
Net increase (decrease) in:				
Accounts payable	28,875	32,856	61,731	(12,089)
Accrued wages payable	3,145	4,871	8,016	2,229
Sales tax payable	4,115	754	4,869	-
Customer deposits	11,430	-	11,430	1,449
Net cash provided by operating activities	\$ 385,927	583,721	969,648	665,825

See accompanying notes to financial statements

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 1 Summary of Significant Accounting Policies

The Glenwood Municipal Utilities is a municipal utility. The utility produces and distributes water and provides sewer services to the residents of Glenwood, Pacific Junction and nearby rural areas.

Glenwood Municipal Utilities is a component unit of the City of Glenwood. The Utility is legally separate from the City but is financially accountable to the City. The Utility is governed by a three-member board appointed by the Mayor subject to approval by the City Council, and the Utilities' budget is approved by the City Council.

The Utilities' financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Glenwood Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility Board has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility Board are such that exclusion would cause the Utility Board's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility Board to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility Board. Glenwood Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Glenwood Municipal Utilities are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fund Financial Statements – Major individual enterprise funds are reported as separate columns in the fund financial statements.

Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004

NOTE 1 Summary of Significant Accounting Policies – Continued

B. Basis of Presentation - Continued

Measurement Focus and Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utility Board 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.

The Utility Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility Board's principal ongoing operations. Water and sewer revenues are based on billing rates that are applied to customers' accounts based on their consumption of water. The Glenwood Municipal Utilities records estimated unbilled revenues at the end of accounting periods. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash and Cash Equivalents – The Glenwood Municipal Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, have a maturity date no longer than three months.

Investments – Investments are stated at cost, which approximates market value.

Accounts Receivable - Accounts receivable are presented at their net realizable values.

Inventory – Materials and supplies are valued at the lower of cost or market on a per item basis.

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 1 Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Net Investments - Continued

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Capital assets are defined by the Utilities Board as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Water towers and system	2,000
Sewer system	2,000
Equipment	2,000
Vehicles	2,000

Capital assets of the Utility Board are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Water towers	40 years
Buildings	30 years
Water mains and hydrants	30 Years
Sewer system	30 Years
Equipment	5-10 years
Vehicles	7 years

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted.

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 2 Cash and Investments

The Utility Board's deposits in banks at June 30, 2005 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 depositories to insure there will be no loss of public funds.

The Utility Board 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 Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

Interest rate risk

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

NOTE 3 Restricted Assets

Restricted assets represent monies set aside for customer deposits, capital improvements, and revenue note requirements.

<u>Water:</u>	<u>Balance 06-30-04</u>	<u>Net Change</u>	<u>Balance 06-30-05</u>
Customer Deposits	\$ 89,230	\$ 11,430	\$ 100,660
Revenue Notes, Sinking Fund	546,805	(546,805)	-
Principal and Interest Reserve Fund	98,000	(98,000)	-

Water revenue notes were redeemed during the current year, releasing the funds in the Sinking and Reserve Funds for general use by the Utility.

<u>Sewer:</u>	<u>Balance 06-30-04</u>	<u>Net Change</u>	<u>Balance 06-30-05</u>
Revenue Notes, Sinking Fund	\$ 11,080	\$ 114,320	\$ 125,400
Principal and Interest Reserve Fund	112,651	-	112,651
Replacement and Maintenance Reserve fund	158,640	-	158,640

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 4 Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	Balance 06-30-04	Additions	Reductions	Balance 06-30-05
Water Revenue Notes	\$ 455,000	\$ 0	\$ 455,000	\$ -
Sewer Revenue Notes	695,907	0	76,002	619,905
	<u>\$ 1,150,907</u>	<u>\$ 0</u>	<u>\$ 531,002</u>	<u>\$ 619,905</u>

The annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	<u>Revenue Notes</u>		
	Principal	Interest	Total
2006	\$ 81,858	\$ 30,793	\$ 112,651
2007	85,951	26,700	112,651
2008	90,248	22,403	112,651
2009	94,761	17,890	112,651
2010	99,499	13,152	112,651
2011-2012	<u>167,588</u>	<u>7,084</u>	<u>174,672</u>
	<u>\$ 619,905</u>	<u>\$ 118,022</u>	<u>\$ 737,927</u>

The resolution providing for the issuance of a \$1,900,000 sewer revenue bond includes the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity.
- (b) The Board shall make annual payments of \$112,651, including interest at 5% per year, to GMAC Commercial Mortgage through the year 2012.
- (c) Sufficient monthly transfers shall be made to a sinking fund account for the purpose of making the above payment when due.
- (d) Additional monthly transfers of 10% of the required annual debt service shall be made to a reserve account until the balance is at least equal to the maximum principal and interest due in any succeeding fiscal year. This account is restricted for making the annual principal and interest payments whenever there is insufficient money in the sinking fund account.

The Board has complied with the above provisions.

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 5 Pension and Retirement Benefits

The Department 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 Department is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Department's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$14,191, \$15,682, and \$14,933, respectively, equal to the required contributions for each year.

NOTE 6 Compensated Absences

Glenwood Municipal Utilities' employees accumulate a limited amount of earned but unused vacation hours for subsequent use, or for payment upon termination, retirement or death. The accumulated liability for accrued vacation totaled \$13,541 and \$6,475 as of June 30, 2005 and 2004, respectively. This liability has been computed based on rates of pay as of June 30, 2005.

Sick leave may be accumulated up to 100 days. The Glenwood Municipal Utilities has a policy that sick leave is lost upon termination, retirement or death. Therefore, these accumulations are not recognized as expenditures until used or paid.

NOTE 7 Recycling and Sewer Fees Payable

The Glenwood Municipal Utilities acts as a collecting agent for the City of Glenwood for recycling fees. Customer bills include allocations for water, recycling and sewer. Collected fees are deposited and then monthly totals are remitted to the City.

During the current period the Board remitted the following amounts to the City of Glenwood:

Recycling fees	\$ 28,587
Penalty on Recycling fees	<u>1,858</u>
Total	<u>\$ 30,445</u>

As of June 30, the following amounts are payable to the City of Glenwood:

	<u>2005</u>	<u>2004</u>
Recycling fees and penalties	\$ <u>5,423</u>	\$ <u>2,728</u>

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 8 Cash Flow Information

During the period ended June 30, 2005, the Board paid \$56,930 in interest.

During the period ended June 30, 2004, the Board abandoned equipment and lines valued at \$316, and paid \$64,762 in interest.

NOTE 9 Purchase of Water Distribution System

On July 1, 1993, the Municipal Utility entered into an agreement with an adjoining municipality for a non-exclusive franchise to construct and operate a distribution system within the municipality. The Glenwood Municipal Utilities assumed an obligation of the municipality with Farmer's Home Administration. This obligation was paid in full on August 18, 1993 with payment of principal of \$96,000 and interest of \$3,025. The Board is imposing a surcharge on the customers within the municipality to reimburse the Board for payment of this obligation.

The balance of this contract receivable was \$26,521 and \$32,949 as of June 30, 2005 and 2004 respectively, and is reflected as an asset on the balance sheet.

NOTE 10 Risk Management

Glenwood Municipal Utilities 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 Municipal Utility assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

NOTE 11 Construction Contract Commitments

The Municipal Utility has entered into a contract for repairs to the lid of the anaerobic digester at the wastewater treatment plant.

As of June 30, 2005, the following amounts have been paid in connection with this project:

	Contract Amount	Prior Year Costs	Current Year Costs	Balance to be Paid
Construction	\$ <u>342,979</u>	\$ 282,082	\$ 26,600	\$ <u>34,297</u>
Miscellaneous costs		5,242	3,407	
Engineering fees		1,223	2,340	
Consulting fees		<u>59,983</u>	<u>9,739</u>	
Total		\$ <u>348,530</u>	\$ <u>42,086</u>	

The balance to be paid includes \$34,297 in retainage. Total project costs of \$390,617 are reported as Construction in Progress on the Balance Sheet. In addition, the water plant has several other projects started with costs totaling \$105,770 which are also reported as Construction in Progress.

NOTE 12 Commitments

The Utility Board has entered into an agreement with PeopleService, Inc. to operate and maintain the sanitary sewer facilities beginning July 1, 2003. The original agreement will be in effect for two years and will automatically be renewed for successive terms of one year unless written notice of cancellation is given no less than 90 days prior to date of expiration. The cost for these services will be \$15,400 per month for the first twelve months, with an annual adjustment every July 1. The Municipal Utility paid \$188,401 and \$184,800 for these services, respectively, for the years ended June 30, 2005 and 2004.

NOTE 13 Subsequent Events

In July 2005, the Utility Board signed a memorandum of agreement with a real estate developer for future improvements to the Municipal Utility's water system in a designated Rural Service Area.

**Glenwood Municipal Utilities
Notes to Financial Statements
June 30, 2005 and 2004**

Required Supplementary Information

Glenwood Municipal Utilities
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2005

Glenwood Municipal Utilities
Combining Budgetary Comparison Schedule of
Revenues and Expenditures – Actual to Budget
Required Supplementary Information
Year Ended June 30, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Budget</u>	<u>Budget to Total Variance</u>
Revenues:					
Water sales	\$ 788,394	-	788,394	887,000	(98,606)
Sewer sales	-	944,157	944,157	1,025,000	(80,843)
Charges for service	39,474	14,485	53,959	64,425	(10,466)
Interest	8,987	3,666	12,653	11,020	1,633
Rent	12,869	499	13,368	13,443	(75)
Merchandise and parts sales (net)	6,914	-	6,914	3,700	3,214
Miscellaneous	<u>23,838</u>	<u>13,586</u>	<u>37,414</u>	<u>1,900</u>	<u>35,524</u>
Total revenues	880,476	976,393	1,856,869	2,006,488	(149,619)
Expenditures:					
Production Expense:					
Fixed costs	256,462	681,492	937,954	795,714	(142,240)
Variable costs	5,491	1,742	7,233	17,350	10,117
Interest	22,011	36,649	58,660	80,000	21,340
Supplies	3,836	2,433	6,269	13,500	7,231
Chemicals and freight	49,664	1,012	50,676	55,000	4,324
Maintenance and repairs	<u>28,076</u>	<u>14,648</u>	<u>42,724</u>	<u>66,500</u>	<u>23,776</u>
Total production expense	365,540	737,976	1,103,516	1,028,064	(75,452)
Distribution Expense:					
Fixed costs	287,533	157,761	445,294	367,334	(77,960)
Variable costs	5,706	7,379	13,085	17,750	4,665
Interest	-	-	-	21,000	21,000
Supplies	1,482	2,307	3,789	5,500	1,711
Maintenance and repairs	<u>31,405</u>	<u>10,818</u>	<u>42,223</u>	<u>72,500</u>	<u>30,277</u>
Total distribution expense	326,126	178,265	504,391	484,084	(20,307)
Administrative:					
Fixed costs	43,373	41,526	84,899	130,551	45,652
Variable costs	<u>20,500</u>	<u>24,691</u>	<u>45,191</u>	<u>58,000</u>	<u>12,809</u>
Total administrative	63,873	66,217	130,090	188,551	58,461
Total expenditures	<u>755,539</u>	<u>982,458</u>	<u>1,737,997</u>	<u>1,700,699</u>	<u>(37,298)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 124,937</u>	<u>(6,065)</u>	<u>118,872</u>	<u>305,789</u>	<u>(186,917)</u>

In accordance with the Code of Iowa, the Utility Board annually adopts a budget on the accrual basis following required public notice and hearing. The budget is subject to approval by the City of Glenwood. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget was not amended during the year.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted.

**Glenwood Municipal Utilities
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2005**

**Glenwood Municipal Utilities
Other Supplementary Information**

**Glenwood Municipal Utilities
Schedule of Operating Expenses for Water Service by Department
June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Production:		
Salaries	\$ 108,554	\$ 111,741
FICA	7,595	8,137
IPERS	6,117	6,413
Unemployment taxes	109	63
Health and dental insurance	31,154	18,982
Utilities	47,355	50,440
Telephone	3,435	3,425
Chemicals	49,664	48,802
Supplies	3,836	7,526
Liability and casualty insurance	8,967	8,289
Workmen's compensation insurance	7,714	5,394
Repairs – building	7,591	5,529
Repairs – machinery	14,211	11,452
Repairs – equipment	1,005	4,747
Repairs – lagoon	5,270	7,295
Repairs - street and system	564	86
Engineering	285	193
Miscellaneous	6,522	3,406
Depreciation	<u>55,593</u>	<u>45,321</u>
	365,541	347,241
Distribution:		
Salaries	39,286	69,404
FICA	3,132	4,905
IPERS	2,450	3,907
Unemployment taxes	40	20
Health and dental insurance	8,187	10,810
Utilities	14,775	16,480
Telephone	7,207	7,215
Supplies	1,482	9,126
Liability and casualty insurance	5,461	4,996
Workmen's compensation insurance	2,922	2,138
Repairs – building	530	12,361
Repairs – machinery	29,731	25,314
Repairs – equipment	1,144	2,762
Repairs – street and system	2,431	423
Engineering	1,105	1,288
Miscellaneous	2,199	708
Depreciation	<u>182,034</u>	<u>142,213</u>
	304,116	314,070

Glenwood Municipal Utilities
Schedule of Operating Expenses for Water Service by Department
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Administrative and Accounting:		
Salaries	28,882	39,323
FICA	2,167	2,922
IPERS	1,586	2,229
Unemployment taxes	38	30
Health and dental insurance	1,481	4,822
Telephone	1,830	2,060
Computer programs and maintenance	3,899	2,953
Office supplies and publications	6,764	6,860
Postage and freight	6,057	6,244
Repairs	1,561	2,059
Liability insurance	1,826	1,631
Workmen's compensation insurance	240	389
Legal and accounting	1,750	4,846
Engineering	1,619	3,076
Board member fees	750	1,750
Miscellaneous	2,096	2,642
Depreciation	1,325	883
	<u>63,871</u>	<u>84,719</u>
	\$ <u>733,528</u>	\$ <u>746,030</u>

See accompanying auditors' report

Glenwood Municipal Utilities
Schedule of Operating Expenses for Sewer Service by Department
June 30, 2005 and 2004

	2005	2004
Production:		
Contracted services	\$ 189,661	138,600
Telephone	628	1,615
Utilities	42,484	17,876
Liability insurance	7,170	6,188
Supplies	3,890	2,884
Chemicals	1,011	-
Repairs – building	8,992	458
Repairs - machinery	5,281	6,084
Repairs – equipment	375	845
Waste disposal	-	574
Engineering	285	0
Miscellaneous	1,964	2,785
Depreciation	439,586	293,890
	701,327	471,799
Distribution:		
Salaries	48,657	15,725
FICA	3,131	1,127
IPERS	2,449	904
Unemployment taxes	40	19
Health and dental insurance	10,193	2,418
Contracted services	-	73,700
Telephone	665	1,471
Utilities	5,686	5,005
Liability insurance	3,386	6,049
Workman’s compensation insurance	2,922	2,083
Supplies	6,055	2,955
Repairs – machinery	1,566	2,672
Repairs – equipment	7,418	739
Repairs – street and system	1,914	478
Engineering	2,550	504
Miscellaneous	1,030	1,277
Depreciation	80,603	55,469
	178,265	172,595
Administrative and Accounting:		
Salaries	28,882	39,322
FICA	2,167	2,787
IPERS	1,585	2,229
Unemployment taxes	38	30
Health and dental insurance	1,481	4,823
Telephone	1,706	1,725
Computer programs and maintenance	4,132	4,046
Office supplies and publications	6,443	7,558
Postage and freight	6,058	6,161
Repairs	1,560	0
Liability insurance	1,743	1,631
Workman’s compensation insurance	240	307
Legal and accounting	3,300	1,025
Engineering	4,889	6,583
Board member fees	750	-
Miscellaneous	1,243	1,574
	66,217	79,801
	\$ 945,809	724,195

See accompanying auditors’ report

**Glenwood Municipal Utilities
Schedule of Property, Plant and Equipment
June 30, 2005**

	COST			WATER
	Balance	Additions	Disposals	Balance
	06-30-04			06-30-05
Production Plant				
Land	\$ 45,648	\$ -	\$ -	\$ 45,648
Buildings	455,262	2,150	-	457,412
Machinery	1,031,890	20,733	-	1,052,623
Equipment	99,697	-	-	99,697
Total production plant	<u>1,632,497</u>	<u>22,883</u>	<u>-</u>	<u>1,655,380</u>
Distribution Plant				
Land	25,973	-	-	25,973
Buildings	1,232,064	-	-	1,232,064
Machinery	4,264,428	20,355	-	4,284,784
Equipment	56,013	-	-	56,013
Total distribution plant	<u>5,578,478</u>	<u>20,355</u>	<u>-</u>	<u>5,598,834</u>
General Plant				
Equipment	<u>100,412</u>	<u>-</u>	<u>-</u>	<u>100,412</u>
Total	\$ <u>7,311,387</u>	\$ <u>43,238</u>	\$ <u>-</u>	\$ <u>7,354,626</u>

	COST			SEWER
	Balance	Additions	Disposals	Balance
	06-30-04			06-30-05
Production Plant				
Buildings	\$ 5,158,200	\$ -	\$ -	\$ 5,158,200
Machinery	4,016,950	1,935	-	4,018,885
Equipment	262,050	-	-	262,050
Total production plant	<u>9,437,200</u>	<u>1,935</u>	<u>-</u>	<u>9,439,135</u>
Distribution Plant				
Buildings	505,000	-	-	505,000
Machinery	4,195,079	1,797	-	4,196,876
Equipment	102,900	-	-	102,900
Total distribution plant	<u>4,802,979</u>	<u>1,797</u>	<u>-</u>	<u>4,804,776</u>
Total	\$ <u>14,240,179</u>	\$ <u>3,732</u>	\$ <u>-</u>	\$ <u>14,243,911</u>

ACCUMULATED DEPRECIATION			
Balance 6-30-04	Additions	Disposals	Balance 06-30-05
\$ -	\$ -	\$ -	\$ -
437,590	3,620	-	441,210
901,833	50,873	-	952,706
96,013	1,099	-	97,112
<u>1,435,436</u>	<u>55,592</u>	<u>-</u>	<u>1,491,028</u>
-	-	-	-
335,593	46,233	-	381,826
2,509,917	135,802	-	2,645,719
56,013	-	-	56,013
<u>2,901,523</u>	<u>182,035</u>	<u>-</u>	<u>3,083,558</u>
99,087	1,325	-	100,412
<u>\$ 4,436,046</u>	<u>\$ 238,952</u>	<u>\$ -</u>	<u>\$ 4,674,998</u>

ACCUMULATED DEPRECIATION			
Balance 06-30-04	Additions	Disposals	Balance 06-30-05
\$ 3,913,086	\$ 262,192	\$ -	\$ 4,175,277
3,383,227	162,994	-	3,546,221
227,150	14,400	-	241,550
<u>7,523,463</u>	<u>439,586</u>	<u>-</u>	<u>7,963,049</u>
504,500	500	-	505,000
3,825,482	80,103	-	3,905,585
102,900	-	-	102,900
<u>4,432,882</u>	<u>80,603</u>	<u>-</u>	<u>4,513,485</u>
<u>\$ 1,195,635</u>	<u>\$ 520,189</u>	<u>\$ -</u>	<u>\$ 12,476,534</u>

See accompanying auditors' report

Glenwood Municipal Utilities
Schedule of Water Expenses Per 1,000 Gallons of Water Sold
For the Year Ended June 30, 2005

	<u>Total Expenses</u>	<u>Sold</u>
Operating Expenses		
Chemicals	\$ 49,664	.19
Depreciation	238,952	.90
Insurance	27,130	.10
Professional services	4,759	.02
Miscellaneous	11,567	.04
Office supplies	6,764	.03
Postage and freight	6,057	.02
Repairs and maintenance	64,038	.24
Supplies	5,318	.02
Computer expenses	3,899	.01
Telephone	12,472	.05
Utilities	62,130	.23
Wages and benefits	240,778	.90
Total operating expenses	<u>733,528</u>	<u>2.75</u>
Other Expenses		
Interest	22,011	.08
Total expenses	<u>\$ 755,539</u>	<u>2.83</u>

Total Gallons Billed and City Use 266,343,640

Due to problems with meters at the water plant, accurate figures are not available for gallons pumped or finished.

See accompanying auditors' report

See accompanying auditors' report

Glenwood Municipal Utilities
Schedule of Sewer Expenses Per 1,000 Gallons of Wastewater Flow
For the Six Months Ended June 30, 2005

	<u>Total Expenses</u>	<u>Expenses per 1,000 Gallons</u>
Operating Expenses		
Contracted services	\$ 189,661	1.21
Depreciation	520,189	3.32
Insurance	15,461	.10
Professional services	11,024	.07
Miscellaneous	5,998	.04
Office supplies	6,443	.04
Postage and freight	6,058	.04
Repairs and maintenance	27,106	.17
Supplies	9,945	.06
Computer expenses	4,132	.03
Telephone	2,999	.02
Utilities	48,170	.31
Wages and benefits	98,623	.63
Total operating expenses	<u>945,809</u>	<u>6.04</u>
Other Expenses		
Interest	36,649	.23
Total expenses	<u>\$ 982,458</u>	<u>6.27</u>
Total Gallons Wastewater Flow January 1, 2005 through June 30, 2005		 <u><u>156,619,500</u></u>

See accompanying auditors' report

Glenwood Municipal Utilities
Schedule of Sewer Expenses Per 1,000 Gallons of Wastewater Flow
For the Year Ended June 30, 2004

	Total <u>Expenses</u>	Expenses per <u>1,000 Gallons</u>
Operating Expenses		
Contracted services	\$ 212,300	1.34
Depreciation	349,359	2.20
Insurance	16,258	.11
Professional services	8,112	.06
Miscellaneous	5,636	.03
Office supplies	7,558	.05
Postage and freight	6,161	.04
Repairs and maintenance	11,850	.07
Supplies	5,839	.04
Computer expenses	4,046	.02
Telephone	4,811	.02
Utilities	22,881	.14
Wages and benefits	69,384	.43
Total operating expenses	<u>724,195</u>	<u>4.55</u>
Other Expenses		
Interest	39,457	.25
Total expenses	<u>\$ 763,652</u>	<u>4.80</u>
Total Gallons Wastewater Flow		<u>159,008,000</u>

See accompanying auditors' report

Glenwood Municipal Utilities
Schedule of Water and Sewer Revenues and Expenses Per 1,000 Gallons
For the Periods Ended June 30, 2005 and 2004

	WATER			
	06-30-05		06-30-04	
	Total	Cost Per 1,000 Gallons Sold	Total	Cost Per 1,000 Gallons Sold
Water revenue	\$ 788,394	\$ 2.96	\$ 831,154	\$ 2.99
Operating expenses	<u>733,528</u>	<u>2.75</u>	<u>746,030</u>	<u>2.68</u>
Net	<u>\$ 54,866</u>	<u>\$.21</u>	<u>\$ 85,124</u>	<u>\$.31</u>
Total Gallons Billed and City Use		266,343,640	277,555,666	

	SEWER			
	06-30-05		06-30-04	
	Total	Cost Per 1,000 Gallons	Total	Cost Per 1,000 Gallons
Sewer revenue	\$ 944,157	\$ 6.03	\$ 786,532	\$ 4.95
Operating expenses	<u>945,809</u>	<u>6.04</u>	<u>724,195</u>	<u>4.55</u>
Net	<u>\$ (1,652)</u>	<u>\$ (.01)</u>	<u>\$ 62,337</u>	<u>\$.40</u>
Total Gallons Wastewater Flow	<u>156,619,500</u>	<u>159,008,000</u>		

See accompanying auditors' report

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters**

September 15, 2005

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

To the Board of Trustees of the
Glenwood Municipal Utilities

We have audited the financial statements of Glenwood Municipal Utilities, a component unit of the City of Glenwood, for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Glenwood Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Glenwood Municipal Utilities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable conditions 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we do not believe any are material weaknesses.

Continued. . .

September 15, 2005
Glenwood Municipal Utilities
Independent Auditors' Report on Compliance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Glenwood Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 Board's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Board. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Glenwood Municipal Utilities and other parties to whom the Board 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 Glenwood Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**Glenwood Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

I-A-05 Monitoring Water Treatment – Due to continued problems with the metering process at the water treatment plant, accurate information is not available for the number of gallons of water pumped and treated.

Recommendation – As this lack of information hinders the accurate tracking of gallons of water lost and possible lost revenues for the Utility, we suggest the Utility investigate alternative methods to gather this information.

Response – We are attempting to correct the situation.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the Utility Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

**Glenwood Municipal Utilities
Schedule of Findings
Year Ended June 30, 2005**

Part II: Other Findings Related to Statutory Reporting (continued):

II-E-05 Business Transactions - We noted no business transactions between the Glenwood Municipal Utilities and Glenwood Municipal Utilities' officials or employees.

II-F-05 Bond Coverage - Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-H-05 Revenue Notes - The Municipal Utility is in compliance with the requirements of the Sewer Revenue Bond Resolution.

II-I-05 Deposits and Investments - We noted no instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Municipal Utility's investment policy.

II-J-05 Statistical Information

<u>Description</u>	<u>Amount</u>
Water Customers served at June 30, 2005	2,350
Gallons of water pumped during the year ended June 30, 2005	274,189,000
Gallons of water sold during the year ended June 30, 2005	266,343,640

NEWS RELEASE

GLENWOOD MUNICIPAL UTILITIES

Glenwood, Iowa 51534

Auditors for Schroer & Associates, P.C., 300 West Broadway, Suite 41, Council Bluffs, Iowa today released an audit report on the Glenwood Municipal Utilities of Glenwood, Iowa.

Schroer & Associates, P.C. reported that the Utility Board's revenues totaled \$1,856,869 for the year ended June 30, 2005, a 6.6 percent increase from 2004. The revenues included \$827,868 in water sales, \$958,642 in sewer sales, \$12,653 in interest income, \$13,368 in rent income, and \$44,338 in other revenues.

Expenses for the year totaled \$1,737,997, a 13 percent increase from 2004. The expenses included \$1,044,856 for production, \$504,391 for distribution, \$130,090 for administrative and accounting and \$58,660 for interest expense.

A copy of the audit report is available for review in the office of the Auditor of State and the Glenwood Municipal Utilities Secretary's office.