

MARSHALLTOWN WATER WORKS

**Independent Auditors' Reports
Financial Statements and
Supplementary Information
Schedule of Findings
June 30, 2006 and 2005**

MARSHALLTOWN WATER WORKS

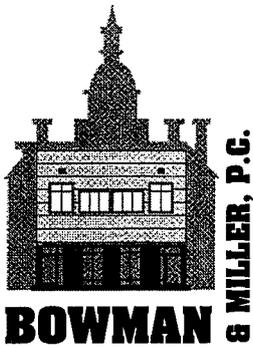
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MARSHALLTOWN WATER WORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Trustee – Chairperson	May 1, 2007
Jerry Young	Trustee	May 1, 2011
Kenneth Vinson	Trustee	May 1, 2010
Leon Lamer	CEO/General Manager	Indefinite
Steve Sincox	Director of Engineering	Indefinite
Dean Reynolds	Director of Water Products	Indefinite
Pat Willey	Director of Finance	Indefinite



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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, 2006 and 2005, 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 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the funds of the Marshalltown Water Works and do not present the financial position of the City of Marshalltown, Iowa, as of June 30, 2006 and 2005, 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, 2006 and 2005, 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 16, 2006, 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 4 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. 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 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006 and 2005.

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

- ◆ 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 is maintaining 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.
- ◆ With the announcement of Maytag to close all facilities in Newton, Central Iowa Water Association (CIWA) contracted for more water from Newton and decreased the amount taken from us. This will, of course, affect our bottom line.

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.

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 Sheet includes 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. Cash balances increased due to the net income shown for the year.
- ◆ Income for the Water Works decreased \$109,211 from 2005 and total expenses increased \$95,877, leaving an operating income of \$166,625. After all non-operating income and expenses were recorded the Water Works reported net income of \$206,947 for the year ending June 30, 2006.
- ◆ Due to weather conditions, the change in CIWA's purchases and the City increasing sewer rates, the Water Works' interest income and revenues were \$3,046,983. As a result, operating revenues did not meet the projected 3% increase over fiscal year 2005. Expenses for fiscal year 2006 were at 92% of budgeted numbers, coming in below the approved budget as approved by the Board of Trustees in March 2005.

DEBT ADMINISTRATION

- ◆ During the fiscal year 2006, the Marshalltown Water Works made payment against bonded indebtedness of \$330,000 reducing bond indebtedness to \$710,000. This bond is a ten-year bond and the last payment on this bond is due June 2008. The Water Works also maintains an improvement fund of \$200,000 as required by the bond resolution, and it continues to maintain a \$350,000 reserve fund also required by the bond resolution. These two fund amounts must be held in reserve in case of default on the bonds.

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 2006 and 2005 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received complaints on pressure or quality. As complaints increase in a certain area we look at the possibility of upgrading those systems to meet the demands of our customers.
- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.
- ◆ During 2006, the Water Works relocated the 12 inch water main on 233rd Street to make room for the grading and paving of Highland Acres Road. We replaced a water main on Country Club Lane because it was in poor shape and was requiring a lot of time to maintain. We also operated every 12 inch valve and larger to make sure they all worked.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- ◆ In June 2004 the Water Works Board of Trustees contracted Economic and Engineering Services to update the Cost-of-Service Study. Economic and Engineering Services recommended to the Board that the Water Works raise rates to replenish the operative and capital reserves by an additional \$200,000 per year until a minimum of \$500,000 is in the reserve fund. Also, they assumed 1.25 rate times the annual depreciation expense for capital project funding from rates which would equal \$700,000 per year. Using these premises, the proposed rates were calculated and a three-year increase was proposed.
- ◆ The Board reviewed the proposal and chose to skip year one and enact the second year cumulative adjustment by customer class in 2004. These rate adjustments ranged from a high of 45.8 percent for industrial customers to 8.8 percent for wholesale customers. This accounted for the turnaround in the financial condition of the Marshalltown Water Works.
- ◆ The Board has increased the wholesale rates to make up for the lost income that they were to cover in the bond issue. The increase was approximately 32%.

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
<u>ASSETS:</u>			
Current assets:			
Cash	\$ 479,789	563,359	(83,570)
Accounts receivable	213,674	194,003	19,671
Other receivables	42,218	52,435	(10,217)
Prepaid expenses	65,909	63,252	2,657
Restricted assets:			
Sinking fund	31,102	30,925	177
Total current assets	<u>832,692</u>	<u>903,974</u>	<u>(71,282)</u>
Investments:			
Certificates of deposit	300,000	300,000	-
Capital reserve	250,902	200,680	50,222
Restricted assets:			
Improvement fund	200,000	200,000	-
Reserve fund	350,000	350,000	-
Total investments	<u>1,100,902</u>	<u>1,050,680</u>	<u>50,222</u>
Capital assets:			
Capital assets	21,340,146	20,880,156	459,990
Accumulated depreciation	(9,430,700)	(8,824,638)	(606,062)
Net capital assets	<u>11,909,446</u>	<u>12,055,518</u>	<u>(146,072)</u>
Other assets:			
Bond origination fee	<u>2,845</u>	<u>4,412</u>	<u>(1,567)</u>
Total assets	<u>\$ 13,845,885</u>	<u>14,014,584</u>	<u>(168,699)</u>

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
<u>LIABILITIES:</u>			
Current liabilities:			
Accounts payable	\$ 75,796	76,864	(1,068)
Due to other governments:			
Landfill fees	12,167	12,637	(470)
Sewer fees	199,206	194,213	4,993
Storm sewer fees	26,220	23,984	2,236
Sewer interest	212	118	94
Customer deposits - sewer	63,605	77,095	(13,490)
Customer deposits - water	46,690	50,995	(4,305)
Accrued liabilities	100,982	134,618	(33,636)
Current portion of long-term debt	345,000	330,000	15,000
Total current liabilities	<u>869,878</u>	<u>900,524</u>	<u>(30,646)</u>
Long-term debt:			
Revenue bonds	710,000	1,040,000	(330,000)
Less: current portion	<u>(345,000)</u>	<u>(330,000)</u>	<u>(15,000)</u>
Total long-term liabilities	<u>365,000</u>	<u>710,000</u>	<u>(345,000)</u>
Total liabilities	<u>1,234,878</u>	<u>1,610,524</u>	<u>(375,646)</u>
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	11,199,446	11,015,519	183,927
Restricted for revenue note retirement	236,102	250,925	(14,823)
Unrestricted:			
Board designated for capital improvements	250,902	200,680	50,222
Undesignated	<u>924,557</u>	<u>936,936</u>	<u>(12,379)</u>
Total net assets	<u>12,611,007</u>	<u>12,404,060</u>	<u>206,947</u>
Total liabilities and net assets	<u>\$ 13,845,885</u>	<u>14,014,584</u>	<u>(168,699)</u>

MARSHALLTOWN WATER WORKS
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase</u> <u>(Decrease)</u>
Operating revenues:			
Residential	\$ 1,250,853	1,275,407	(24,554)
Multi-family	161,344	172,587	(11,243)
Commercial	358,644	343,858	14,786
Irrigation	37,206	32,391	4,815
Industrial	510,082	535,291	(25,209)
Wholesale	610,782	688,587	(77,805)
Non-metered	905	548	357
City contract services	61,999	62,238	(239)
Penalties	26,084	27,559	(1,475)
Customer service	23,913	13,298	10,615
Testing laboratory	5,171	4,430	741
Total operating revenues	<u>3,046,983</u>	<u>3,156,194</u>	<u>(109,211)</u>
Operating expenses:			
Salaries and wages	837,717	834,495	3,222
Payroll taxes and benefits	225,621	230,417	(4,796)
Utilities	271,345	326,729	(55,384)
Fuels	15,867	13,336	2,531
Supplies	78,411	69,316	9,095
Repairs and maintenance	107,387	73,570	33,817
Chemicals	601,863	502,483	99,380
Contract services	15,733	9,440	6,293
Insurance	71,685	75,319	(3,634)
Professional fees	9,469	16,893	(7,424)
Other operating expense	39,246	10,123	29,123
Bad debt expense	(48)	60	(108)
Depreciation	606,062	622,300	(16,238)
Total operating expenses	<u>2,880,358</u>	<u>2,784,481</u>	<u>95,877</u>
Operating income	<u>166,625</u>	<u>371,713</u>	<u>(205,088)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets (Continued) Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	73,339	32,244	41,095
Rentals	3,100	500	2,600
Miscellaneous income	16,809	15,073	1,736
Interest expense	(41,098)	(53,225)	12,127
Miscellaneous expense	<u>(11,828)</u>	<u>(4,489)</u>	<u>(7,339)</u>
Total non-operating revenues (expenses)	<u>40,322</u>	<u>(9,897)</u>	<u>50,219</u>
Change in net assets	206,947	361,816	(154,869)
Net assets, beginning	<u>12,404,060</u>	<u>12,042,244</u>	<u>361,816</u>
Net assets, ending	<u>\$ 12,611,007</u>	<u>12,404,060</u>	<u>206,947</u>

MARSHALLTOWN WATER WORKS

Statements of Cash Flows Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,037,529	3,167,311
Cash payments to suppliers for goods and services	(1,208,502)	(1,047,287)
Cash payments to employees and professional contractors for services	<u>(1,112,707)</u>	<u>(1,074,424)</u>
Net cash provided (used) by operating activities	<u>716,320</u>	<u>1,045,600</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	1,050,000	856,523
Purchase of investments	(1,100,222)	(1,053,957)
Investment income	73,339	32,244
Receipt of rental income	3,100	500
Other operating revenues (expenses)	<u>4,981</u>	<u>10,584</u>
Net cash provided (used) in investing activities	<u>31,198</u>	<u>(154,106)</u>
Cash flows from capital and related financing activities:		
Payment on revenue bonds	(330,000)	(315,000)
Interest paid on revenue bonds	(41,098)	(53,225)
Acquisition of capital assets	<u>(459,990)</u>	<u>(915,059)</u>
Net cash provided (used) by financing activities	<u>(831,088)</u>	<u>(1,283,284)</u>
Net change in cash and cash equivalents	(83,570)	(391,790)
Cash and cash equivalents at beginning of year	<u>563,359</u>	<u>955,149</u>
Cash and cash equivalents at end of year	<u>\$ 479,789</u>	<u>563,359</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 166,625	371,713
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	606,062	622,300
Bond origination fees	1,567	1,566

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued) Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
(Increase) decrease in assets:		
Accounts receivable	(19,671)	(3,710)
Other receivables	10,217	6,742
Prepaid expenses	(2,657)	6,316
Merchandise for resale	-	443
Sinking fund	(177)	(240)
Increase (decrease) in liabilities:		
Accounts payable	(1,068)	44,013
Payable to sewer fund	4,993	(19,626)
Payable to landfill fund	(470)	(740)
Payable to storm sewer fund	2,236	(3,403)
Customer deposits-sewer	(13,490)	7,965
Customer deposits-water	(4,305)	2,100
Sewer interest	94	30
Accrued liabilities	<u>(33,636)</u>	<u>10,131</u>
Net cash provided (used) by operating activities	<u>\$ 716,320</u>	<u>1,045,600</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements June 30, 2006 and 2005

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, 2006 and 2005. 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, 2006 and 2005

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, 2006 and 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 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, 2006 and 2005.

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, 2006 and 2005

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, 2006 and 2005 are \$710,000 and \$1,040,000, 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>
2007	3.95%	\$ 345,000	28,228
2008	4.00%	<u>365,000</u>	<u>14,600</u>
		\$ <u>710,000</u>	<u>42,828</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 2006 and 2005.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2006 and 2005

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, 2006, 2005, and 2004 were \$443,801, \$424,317, and \$434,376, respectively, while total payrolls for 2006, 2005 and 2004 were \$828,304, \$803,461 and \$798,597, 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, 2003. 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 2006, 2005 and 2004. 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, 2006, 2005 and 2004 were as follows:

	<u>2006*</u>	<u>2005*</u>	<u>2004*</u>
Vested:			
Active	\$ 297,430	272,899	250,760
Retired	<u>840,326</u>	<u>908,090</u>	<u>880,151</u>
Total vested	1,137,756	1,180,989	1,130,911
Non-vested	<u>701,664</u>	<u>602,793</u>	<u>588,404</u>
Total pension benefit obligations	\$ <u>1,839,420</u>	<u>1,783,782</u>	<u>1,719,315</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2006 and 2005

Note 4. Pension and Retirement Benefits (Continued)

	<u>2006*</u>	<u>2005*</u>	<u>2004*</u>
Net assets available for benefits at market value	\$ 1,310,753	1,350,451	1,457,419
(cost 2006: \$1,310,380)			
(cost 2005: \$1,371,039)			
(cost 2004: \$1,430,170)			
Prepaid (unfunded) pension	\$ (528,667)	(433,331)	(261,896)

*The last actuarial valuation was performed on April 1, 2004. Estimated values have been calculated as of April 1, 2006 and 2005.

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 year ended June 30, 2006 for employer portion was 6 3/4% and 3 1/4% for employees. For year ended June 30, 2005, employer portion was 5 1/4% and 2 1/4% for employees. Contributions paid by the Water Works for the years ended June 30, 2006, 2005 and 2004 totaled \$29,456, \$24,399 and \$24,977, respectively, and the contributions paid by employees totaled \$13,365, \$9,547 and \$9,773, 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>2006*</u>	<u>2005*</u>	<u>2004*</u>
Net assets available for benefits as percentages of the pension benefit obligations	71%	76%	85%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(119%)	(103%)	(60%)
Employer contributions (in accord- ance with actuarially determined requirements) as percentages of covered payroll	6.75%	5.75%	5.75%

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2006 and 2005

Note 4. Pension and Retirement Benefits (Continued)

	<u>2006*</u>	<u>2005*</u>	<u>2004*</u>
Actuarial value of assets as a percentage of the actuarial accrued liability	67%	71%	79%
Ratio of the unfunded actuarial liability to annual covered payroll	144%	130%	87%
Total unfunded actuarial liability	\$ 640,705	548,893	378,851
Actuarial accrued liability	\$ 1,951,458	1,899,344	1,836,270
Actuarial value of plan assets	\$ 1,310,753	1,350,451	1,457,419

*The last actuarial valuation was performed on April 1, 2004. Estimated values have been calculated as April 1, 2006 and 2005.

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, 2006, 2005 and 2004 were \$22,471, \$22,974, and \$23,121, 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, 2006 and 2005

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 2006 and 2005.

Note 7. Capital Assets

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

	<u>2006</u>	<u>2005</u>
Land	\$ 1,113,721	1,113,721
Plant and source of supply	8,731,138	8,711,461
Booster station	161,072	161,072
Distribution system and pipe	8,542,448	8,317,912
Meters	1,262,475	1,248,796
Machinery and equipment	404,642	325,101
Vehicles	231,923	195,945
Capital improvements	54,650	54,650
Capital improvements – buildings	448,576	400,870
Office equipment and furnishings	<u>389,501</u>	<u>350,628</u>
	21,340,146	20,880,156
Less accumulated depreciation	<u>(9,430,700)</u>	<u>(8,824,638)</u>
	\$ <u>11,909,446</u>	<u>12,055,518</u>

Depreciation expense was \$606,062 for the year ended June 30, 2006 and \$622,300 for the year ended June 30, 2005.

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	161,767	234,612	(72,845)
Water deposits	46,690	50,995	(4,305)
Less: sinking fund allocation	<u>(31,102)</u>	<u>(30,925)</u>	<u>(177)</u>
	<u>177,985</u>	<u>255,312</u>	<u>(77,327)</u>
Cash held for city:			
Sewer deposit fund	63,817	77,213	(13,396)
Sewer cash	199,482	194,213	5,269
Storm sewer cash	26,338	23,984	2,354
Landfill cash	<u>12,167</u>	<u>12,637</u>	<u>(470)</u>
Total cash held for city	<u>301,804</u>	<u>308,047</u>	<u>(6,243)</u>
Total cash	<u>\$ 479,789</u>	<u>563,359</u>	<u>(83,570)</u>
Capital assets:			
Land	\$ 1,113,721	1,113,721	-
Plant and source of supply	8,731,138	8,711,461	19,677
Accumulated depreciation - plant	(5,154,520)	(4,775,291)	(379,229)
Distribution system and pipe	8,542,448	8,317,911	224,537
Accumulated depreciation - distribution	(2,456,251)	(2,367,897)	(88,354)
Booster station	161,072	161,072	-
Accumulated depreciation-booster station	(54,868)	(52,186)	(2,682)
Meters	1,262,475	1,248,796	13,679
Accumulated depreciation - meters	(801,448)	(761,394)	(40,054)
Machinery and equipment	404,642	325,101	79,541
Accumulated depreciation - machinery and equipment	<u>(273,974)</u>	<u>(255,315)</u>	<u>(18,659)</u>
Vehicles	231,923	195,946	35,977
Accumulated depreciation - vehicles	(168,346)	(149,583)	(18,763)
Capital improvements	54,650	54,650	-
Accumulated depreciation - capital improvements	<u>(15,538)</u>	<u>(14,057)</u>	<u>(1,481)</u>
Capital improvements - buildings	448,576	400,870	47,706
Accumulated depreciation - buildings	(223,179)	(207,706)	(15,473)
Office equipment and furnishings	389,501	350,628	38,873
Accumulated depreciation - office equipment and furnishings	<u>(282,576)</u>	<u>(241,209)</u>	<u>(41,367)</u>
Net capital assets	<u>\$ 11,909,446</u>	<u>12,055,518</u>	<u>(146,072)</u>

MARSHALLTOWN WATER WORKS

Balance Sheets Detail (Continued) June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 62,351	58,037	4,314
Prepaid billing supplies	<u>3,558</u>	<u>5,215</u>	<u>(1,657)</u>
Total prepaid expenses	<u>\$ 65,909</u>	<u>63,252</u>	<u>2,657</u>
Other receivables:			
Miscellaneous accounts receivable billings	\$ 26,081	20,650	5,431
Interest receivable	5,620	10,998	(5,378)
Contract receivables	<u>10,517</u>	<u>20,787</u>	<u>(10,270)</u>
Total other receivables	<u>\$ 42,218</u>	<u>52,435</u>	<u>(10,217)</u>
Accrued liabilities:			
Accrued sales tax	\$ 6,633	16,137	(9,504)
Accrued F.I.C.A.	1,217	2,933	(1,716)
Accrued payroll	15,909	39,521	(23,612)
Accrued pension	426	1,019	(593)
Accrued vacation	76,224	74,044	2,180
Accrued retirement expense	573	1,006	(433)
Unreimbursed medical withheld	<u>-</u>	<u>(42)</u>	<u>42</u>
Total accrued liabilities	<u>\$ 100,982</u>	<u>134,618</u>	<u>(33,636)</u>

MARSHALLTOWN WATER WORKS

Treatment Plant Expenses Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ 303,391	289,105	14,286
Employee benefits:			
Health insurance	33,767	33,960	(193)
Pension	18,130	16,893	1,237
Social security	22,247	21,279	968
Life insurance	1,179	1,145	34
Mileage	-	88	(88)
Registration	870	835	35
Lodging	211	309	(98)
Safety clothing	381	(248)	629
Safety training	2,356	2,356	-
Medical	247	340	(93)
	<u>79,388</u>	<u>76,957</u>	<u>2,431</u>
Utilities:			
Electric	231,695	267,641	(35,946)
Gas	21,317	15,485	5,832
Internet	-	69	(69)
Telephone	2,867	2,446	421
	<u>255,879</u>	<u>285,641</u>	<u>(29,762)</u>
Depreciation:			
Plant depreciation	<u>379,232</u>	<u>400,319</u>	<u>(21,087)</u>
Fuels:			
Gas	1,172	737	435
Oil	19	48	(29)
Grease	100	-	100
Diesel fuel	1,519	150	1,369
	<u>2,810</u>	<u>935</u>	<u>1,875</u>
Supplies:			
Lab supplies	13,057	16,954	(3,897)
Plant supplies	1,088	1,681	(593)
Building supplies	972	-	972

MARSHALLTOWN WATER WORKS

Treatment Plant Expenses (Continued) Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Supplies (continued):			
Well supplies	503	377	126
Cleaning supplies	1,031	968	63
General supplies	2,107	902	1,205
Health and first aid	73	197	(124)
Safety equipment	1,007	1,222	(215)
Meter pit supplies	1,741	-	1,741
	<u>21,579</u>	<u>22,301</u>	<u>(722)</u>
Maintenance:			
Building maintenance	3,122	3,675	(553)
Machinery maintenance	12,177	17,849	(5,672)
Computer maintenance	627	884	(257)
Grounds maintenance	1,414	1,937	(523)
Well field maintenance	19,179	10,596	8,583
Heating and air maintenance	1,222	1,099	123
Safety equipment maintenance	285	-	285
Vehicle maintenance	2,873	306	2,567
Meter pit repair	486	-	486
	<u>41,385</u>	<u>36,346</u>	<u>5,039</u>
Chemicals:			
Pebble-lime	232,699	188,219	44,480
CO2	14,717	16,356	(1,639)
CL2	35,717	30,645	5,072
Fluoride	11,867	7,955	3,912
Poly-phosphate	6,716	5,818	898
Polymer	18,277	18,960	(683)
Lime sludge removal	267,076	227,856	39,220
Sodium chlorite	14,794	6,674	8,120
	<u>601,863</u>	<u>502,483</u>	<u>99,380</u>
Contract services:			
Rentals	191	26	165
Lab services	13,728	5,763	7,965
Grant	(10)	-	(10)
	<u>13,909</u>	<u>5,789</u>	<u>8,120</u>
Total treatment plant	<u>\$ 1,699,436</u>	<u>1,619,876</u>	<u>79,560</u>

MARSHALLTOWN WATER WORKS

Engineering Expenses Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Salaries:			
Engineering salaries	\$ -	95,554	(95,554)
Employee benefits:			
Health insurance	-	7,185	(7,185)
Pension	-	5,649	(5,649)
Social security	-	7,065	(7,065)
Life insurance	-	419	(419)
Registration	-	450	(450)
Annual dues	-	210	(210)
Lodging	-	212	(212)
	-	21,190	(21,190)
Depreciation:			
Vehicle depreciation	-	3,917	(3,917)
Fuels:			
Oil	-	15	(15)
Gas	-	680	(680)
	-	695	(695)
Supplies:			
Supplies	-	452	(452)
Data processing supplies	-	67	(67)
	-	519	(519)
Maintenance:			
Vehicle maintenance	-	507	(507)
Computer maintenance	-	685	(685)
	-	1,192	(1,192)
Contract services:			
Engineering services	-	1,695	(1,695)
One call phone lines	-	80	(80)
One call locate charges	-	1,876	(1,876)
	-	3,651	(3,651)
Total engineering	\$ -	126,718	(126,718)

MARSHALLTOWN WATER WORKS

Construction and Maintenance Expenses Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ 191,282	134,962	56,320
Employee benefits:			
Health insurance	25,648	20,345	5,303
Pension	11,226	7,991	3,235
Social security	14,209	10,197	4,012
Life insurance	809	668	141
Registration	1,219	300	919
Operation fees and permits	-	31	(31)
Dues	215	-	215
Food	11	16	(5)
Lodging	211	-	211
Medical	55	855	(800)
Safety clothing	1,006	1,029	(23)
Safety training	2,356	2,356	-
	<u>56,965</u>	<u>43,788</u>	<u>13,177</u>
Utilities:			
One call locate charges	(305)	-	(305)
Depreciation:			
Distribution depreciation	88,353	85,382	2,971
Booster station depreciation	2,681	2,522	159
Vehicle depreciation	5,992	11,499	(5,507)
Equipment depreciation	18,658	20,880	(2,222)
	<u>115,684</u>	<u>120,283</u>	<u>(4,599)</u>
Fuels:			
Gas	3,221	2,750	471
Oil	352	621	(269)
Grease	92	50	42
Diesel fuel	5,381	4,974	407
LP gas	-	73	(73)
	<u>9,046</u>	<u>8,468</u>	<u>578</u>

MARSHALLTOWN WATER WORKS

Construction and Maintenance Expenses (Continued) Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	11,156	10,602	554
Shop supplies	1,704	1,899	(195)
Leak repair supplies	21,726	15,618	6,108
Hydrant and valve supplies	3,526	775	2,751
Booster station supplies	270	-	270
Safety equipment	80	-	80
Data processing supplies	33	-	33
CIWA meter pit supplies	(190)	2,033	(2,223)
	<u>38,305</u>	<u>30,927</u>	<u>7,378</u>
Maintenance:			
Vehicle maintenance	2,076	3,410	(1,334)
Equipment maintenance	18,073	9,000	9,073
Computer maintenance	1,204	-	1,204
Safety equipment maintenance	82	-	82
Tower maintenance	640	194	446
Reservior maintenance	21	-	21
Well field maintenance	1,791	1,339	452
Booster station maintenance	329	654	(325)
CIWA meter pit repairs	(22)	2,322	(2,344)
	<u>24,194</u>	<u>16,919</u>	<u>7,275</u>
 Total construction and maintenance	 <u>\$ 435,171</u>	 <u>355,347</u>	 <u>79,824</u>

MARSHALLTOWN WATER WORKS

Customer Service and Meter Expense Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ 101,851	85,228	16,623
Employee benefits:			
Health insurance	14,866	17,705	(2,839)
Pension	6,068	5,121	947
Social security	7,547	6,178	1,369
Life insurance	391	315	76
Dues	125	-	125
Safety clothing	1,620	260	1,360
Safety training	2,356	2,356	-
Medical	228	-	228
	<u>33,201</u>	<u>31,935</u>	<u>1,266</u>
Depreciation:			
Vehicle depreciation	12,771	7,498	5,273
Meter depreciation	40,054	43,738	(3,684)
	<u>52,825</u>	<u>51,236</u>	<u>1,589</u>
Fuels:			
Gas	3,931	3,188	743
Oil	58	50	8
LP gas	22	-	22
	<u>4,011</u>	<u>3,238</u>	<u>773</u>
Maintenance:			
Vehicle maintenance	513	2,264	(1,751)
Equipment maintenance	1,495	720	775
Safety equipment maintenance	75	(468)	543
	<u>2,083</u>	<u>2,516</u>	<u>(433)</u>
Supplies:			
General supplies	1,654	3,026	(1,372)
Meter repair supplies	933	1,670	(737)
Shop supplies	866	539	327
Service repair supplies	-	(60)	60
Safety equipment	4	-	4
	<u>3,457</u>	<u>5,175</u>	<u>(1,718)</u>
Total customer service and meter expense	\$ 197,428	179,328	18,100

MARSHALLTOWN WATER WORKS

Administrative and Non-Operating Expenses Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ 241,193	229,646	11,547
Employee benefits:			
Health insurance	12,530	12,680	(150)
Pension	15,428	13,416	2,013
Social security	18,101	16,745	1,356
Life insurance	1,063	843	220
Operational fees and permits	-	1,389	(1,389)
Mileage	2,954	2,349	605
Registration fees	250	325	(75)
Dues and subscriptions	4,536	7,729	(3,193)
Lodging	235	435	(200)
Food	970	636	334
	<u>56,067</u>	<u>56,547</u>	<u>(480)</u>
Utilities:			
Electricity	10,142	7,138	3,004
Gas	4,972	4,154	818
Internet expense	-	100	(100)
Telephone	5,461	4,937	524
Postage	(80)	17,658	(17,738)
Public notices	(4,724)	7,101	(11,825)
	<u>15,771</u>	<u>41,088</u>	<u>(25,317)</u>
Depreciation:			
Building depreciation	16,954	16,748	206
Equipment depreciation	41,367	29,797	11,570
	<u>58,321</u>	<u>46,545</u>	<u>11,776</u>
General supplies:			
Office supplies	2,807	2,616	191
Data processing supplies	2,554	2,033	521
General supplies	3,327	5,441	(2,114)
Operation fees and permits	5,794	-	5,794
Health and first aid	588	304	284
	<u>15,070</u>	<u>10,394</u>	<u>4,676</u>

MARSHALLTOWN WATER WORKS

Administrative and Non-Operating Expenses (Continued) Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	31,879	13,941	17,938
Office machine maintenance	(448)	970	(1,418)
Building maintenance	3,154	1,571	1,583
Grounds maintenance	2,017	-	2,017
Heating and air conditioner maintenance	3,123	115	3,008
	<u>39,725</u>	<u>16,597</u>	<u>23,128</u>
Administrative expenses:			
Insurance	71,685	75,319	(3,634)
Bad debt expense	(48)	60	(108)
Banking services	3,328	1,965	1,363
Legal services	1,557	11,193	(9,636)
Cleaning services	5,057	5,068	(11)
Accounting services	7,912	5,700	2,212
Postage	18,324	-	18,324
Public notices	12,537	-	12,537
Contract services	1,824	-	1,824
Computer programming	-	600	(600)
Engineering services	-	2,490	(2,490)
	<u>122,176</u>	<u>102,395</u>	<u>19,781</u>
Total administrative expenses	<u>\$ 548,323</u>	<u>503,212</u>	<u>45,111</u>
Non-operating expenses:			
Interest expense	\$ 41,098	53,225	(12,127)
Board compensation	900	900	-
Returned checks	428	(390)	818
Overpayments	-	(21)	21
Economic development	10,500	4,000	6,500
	<u>52,926</u>	<u>57,714</u>	<u>(4,788)</u>
Total non-operating expenses	<u>\$ 52,926</u>	<u>57,714</u>	<u>(4,788)</u>

MARSHALLTOWN WATER WORKS

Summary of Indebtedness

Year Ended June 30, 2006

	<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	\$ 1,040,000
Issued during year	-
Redeemed during year	<u>330,000</u>
Balance, end of year	\$ <u>710,000</u>
Current portion (due in one year)	\$ <u>345,000</u>

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>



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

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Independent Auditors' Report on
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, 2006 and 2005, and have issued our report thereon dated August 16, 2006. 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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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, 2006 and 2005 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 16, 2006

MARSHALLTOWN WATER WORKS

Schedule of Findings Years Ended June 30, 2006 and 2005

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:

- 06-II-A Certified Budget - Expenditures during the years ended June 30, 2006 and 2005, did not exceed the amounts budgeted.
- 06-II-B 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.
- 06-II-C Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.
- 06-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 06-II-E 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.
- 06-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 06-II-G 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.
- 06-II-H 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:

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Marshalltown, Iowa

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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 \$3,140,231 for the year ended June 30, 2006, a 1.9 percent decrease from 2005. The revenues included \$2,928,911 of water revenue and \$73,339 of interest earned.

Marshalltown Water Works' expenditures for the year totaled \$2,933,284, a 3.2 percent increase from the year 2005. The expenditures included \$1,699,436 for water plant operation and maintenance, \$435,171 for construction and maintenance and \$601,249 for administrative and non-operating expenses.

A copy of the audit report is available for review at the Marshalltown Water Works office at 205 East State Street office, the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/reports.htm>.