

**GOWRIE MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF GOWRIE**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

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Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before July 2007)</b>		
Debra Tvrdik	Trustee	July, 2007
Bruce Towne	Trustee	July, 2008
Kevin Sturm	Trustee	July, 2009
Jeff Boerner	Trustee	July, 2011
Brad Lane	Trustee	July, 2012
<b>(After July 2007)</b>		
Bruce Towne	Trustee	July, 2008
Kevin Sturm	Trustee	July, 2009
Jeff Boerner	Trustee	July, 2011
Brad Lane	Trustee	July, 2012
Debra Tvrdik	Trustee	July, 2013
Charles Angstrom	Public Works Director	Indefinite
Patrice Klingson	Secretary	Indefinite
Johnson Law Firm	Attorney	Indefinite

## Independent Auditor's Report

To the Board of Trustees of  
Gowrie Municipal Utilities  
Gowrie, Iowa

We have audited the accompanying financial statement of the business type activities, each major fund and the aggregate remaining fund information of Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the Utilities' basic financial statement listed in the table of contents. This financial statement is the responsibility of the Utilities' management. Our responsibility is to express opinions on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 our audit provides a reasonable basis for our opinions.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of Gowrie Municipal Utilities, a component unit of the City of Gowrie, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2008 on our consideration of Gowrie Municipal Utilities' 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 internal control over financial reporting or 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 15 through 16 are not required parts of the basic financial statements, but are 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 audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise Gowrie Municipal Utilities' basic financial statement. Other supplementary information included in Schedules 1 through 12, including the Schedule of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

January 9, 2008

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

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Gowrie 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, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- . Operating receipts of the Utilities' business type activities increased 3.8%, or approximately \$44,000 from fiscal 2006 to fiscal 2007.
- . Operating disbursements decreased 2.2%, or approximately \$23,000 in fiscal 2007 from fiscal 2006.
- . The Utilities' total cash basis net assets increased 22.7%, or approximately \$144,000, from June 30, 2006 to June 30, 2007.

### **USING THIS ANNUAL REPORT**

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 Proprietary Fund Financial Statements report the Utilities' operations by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the nonmajor proprietary funds and other detailed information. In addition, the Schedule of Expenditures of Federal Awards provides details of federal programs benefiting the Utilities.

## **Basis of Accounting**

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

### *Proprietary Fund Financial Statements*

Proprietary funds account for the Utilities' Enterprise Funds. Enterprise Funds are used to report business type activities. Business type activities are financed primarily by user charges. The Utilities maintains five Enterprise Funds to provide separate information for the water, sewer, electric, garbage and meter deposit departments. The electric and sewer funds are considered to be major funds of the Utilities.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## FINANCIAL ANALYSIS COMPARISON

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### Changes in Cash Basis Fund Balances of Business Type Activities (Expressed in Thousands)

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	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for service	\$ 1,163	1,123
General receipts:		
Unrestricted interest on investments	26	14
Loan and bond proceeds	532	179
Intergovernmental	367	73
Other general receipts	<u>127</u>	<u>99</u>
Total receipts	<u>2,215</u>	<u>1,488</u>
Disbursements	<u>2,071</u>	<u>1,425</u>
Increase in cash balance	144	63
Cash basis fund balances beginning of year	<u>635</u>	<u>572</u>
Cash basis fund balances end of year	\$ 779 =====	635 =====

Total business type activities receipts for the fiscal year were \$2.215 million compared to \$1.488 million last year. This increase was due primarily to the receipt of \$899,000 revenue bond and grant proceeds in 2007 as compared to \$252,000 in 2006. The cash balance increased by approximately \$144,000 from the prior year. Total disbursements for the fiscal year increased by 45% to a total of \$2.071 million. This increase was due primarily to capital outlay expenditures of \$938,000 in 2007 compared to \$309,000 in 2006.

### INDIVIDUAL MAJOR BUSINESS TYPE ACTIVITIES FUND ANALYSIS

- The Water Fund cash balance decreased by \$1,373 to \$147,674.
- The Electric Fund cash balance increased by \$111,901 to \$540,156.
- The Sewer Fund cash balance increased by \$30,102 to \$65,150.

## BUDGETARY HIGHLIGHTS

The Utilities did not exceed its budget.

## DEBT ADMINISTRATION

At June 30, 2007, the Utilities had \$1,305,691 in loans, notes and bonds compared to \$884,700 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	<u>2007</u>	<u>June 30, 2006</u>
Loan payable	\$ ---	39
Revenue note	186	209
Revenue bond	<u>1,120</u>	<u>637</u>
Total	\$ <u>1,306</u>	<u>885</u>

Debt increased as a result of obtaining a sewer revenue bond for wastewater treatment system improvements.

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

Gowrie Municipal Utilities' considered many factors when setting the fiscal year 2008 budget and fees that will be charged for services.

## CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, 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 Gowrie Municipal Utilities, 1102 Main Street, Gowrie, Iowa 50543.

## **Basic Financial Statement**

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Exhibit A

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2007

	Enterprise Funds			<u>Total</u>
	<u>Electric</u>	<u>Sewer</u>	<u>Other Nonmajor Proprietary Funds</u>	
Operating receipts:				
Use of money and property	\$ -	-	3,960	3,960
Charges for service	793,320	143,839	225,837	1,162,996
Miscellaneous	49,228	-	5,835	55,063
Total operating receipts	<u>842,548</u>	<u>143,839</u>	<u>235,632</u>	<u>1,222,019</u>
Operating disbursements:				
Business type activities	<u>736,874</u>	<u>85,563</u>	<u>161,451</u>	<u>983,888</u>
Total operating disbursements	<u>736,874</u>	<u>85,563</u>	<u>161,451</u>	<u>983,888</u>
Excess of operating receipts over operating disbursements	<u>105,674</u>	<u>58,276</u>	<u>74,181</u>	<u>238,131</u>
Non-operating receipts (disbursements):				
Interest on investments	15,844	1,664	8,932	26,440
Miscellaneous	63,713	2,917	1,860	68,490
Revenue bond proceeds	-	531,885	-	531,885
Intergovernmental	-	366,719	-	366,719
Capital outlay	(45,539)	(892,098)	-	(937,637)
Debt service	<u>(30,316)</u>	<u>(39,261)</u>	<u>(80,351)</u>	<u>(149,928)</u>
Net non-operating receipts (disbursements)	<u>3,702</u>	<u>(28,174)</u>	<u>(69,559)</u>	<u>(94,031)</u>
Excess of receipts over disbursements	109,376	30,102	4,622	144,100
Operating transfers in (out)	<u>2,525</u>	<u>-</u>	<u>(2,525)</u>	<u>-</u>
Net change in cash balances	111,901	30,102	2,097	144,100
Cash balances beginning of year	<u>428,255</u>	<u>35,048</u>	<u>171,820</u>	<u>635,123</u>
Cash balances end of year	<u>\$ 540,156</u>	<u>65,150</u>	<u>173,917</u>	<u>779,223</u>
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	2,779	3,935	82,217	88,931
Improvements	-	-	99,954	99,954
Unreserved	<u>537,377</u>	<u>61,215</u>	<u>(8,254)</u>	<u>590,338</u>
Total cash basis fund balances	<u>\$ 540,156</u>	<u>65,150</u>	<u>173,917</u>	<u>779,223</u>

See notes to financial statements.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

Gowrie Municipal Utilities is a component unit of the City of Gowrie, Iowa. These financial statements present the Enterprise funds of Gowrie Municipal Utilities only. Gowrie Municipal Utilities is legally separate from the City, but is financially accountable to the City. The Municipal Utilities is governed by a five-member board appointed by the City Council and the Municipal Utilities' operating budget is subject to the approval of the City Council. The Utilities provide water, electric, sewer and garbage services to the citizens of the City of Gowrie.

A. Reporting Entity

For financial reporting purposes, Gowrie Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. Gowrie Municipal Utilities 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 Municipal Utilities are such that exclusion would cause the Municipal Utilities' 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 Municipal Utilities 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 Utilities. The Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2007

The Utilities report the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utilities' electric system.

The Sewer Fund accounts for the operation and maintenance of the Utilities' waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The Gowrie Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the Utilities fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both reserved and unreserved cash basis fund balances available to finance the program. It is the Utilities' policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted in the business type activities function.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2007

**(2) Cash**

The Utilities' deposits in banks at June 30, 2007 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 Utilities 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 Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments at June 30, 2007. During the year, the Utilities deposited excess funds in certificates of deposit.

**(3) Notes and Bonds Payable**

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

Year Ending <u>June 30,</u>	<u>Revenue Notes</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$23,751	6,565	51,000	33,599	74,751	40,164
2009	24,626	5,690	53,000	32,069	77,626	37,759
2010	25,533	4,783	54,000	30,478	79,533	35,261
2011	26,473	3,842	55,000	28,859	81,473	32,701
2012	27,448	2,867	57,000	27,209	84,448	30,076
2013-2017	57,905	2,664	311,000	109,373	368,905	112,037
2018-2022	---	---	361,000	59,843	361,000	59,843
2023-2025	---	---	177,955	8,846	177,955	8,846
Total	\$ 185,736	26,411	1,119,955	330,276	1,305,691	356,687
	=====	=====	=====	=====	=====	=====

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2007

On April 29, 2003 a loan agreement was entered into between Security Savings Bank and Gowrie Municipal Utilities. The loan was for \$150,000 with a fixed interest rate of 2.65% and maturity date of May 1, 2007. The loan called for eight semi-annual payments of \$19,890 beginning November 1, 2003. The loan was secured by a commercial security agreement dated April 29, 2003. This loan was paid in full on May 1, 2007.

On March 9, 2004 an electric revenue note was entered into between Security Savings Bank and Gowrie Municipal Utilities. The note was for \$250,000 with a fixed interest rate of 3.65% and maturity date of June 1, 2014. The note calls for twenty semi-annual payments of \$15,158 beginning December 1, 2004. The note is secured by a commercial security agreement dated March 9, 2004. Proceeds from this note were used to finance electrical improvements. The note resolution established an "Electric Revenue Fund" to be set aside and used in maintaining and operating the electric system and after payment of operating expenses be used to pay principal and interest on the note.

State Revolving Fund Loan Proceeds

The Utilities approved issuance of Water Revenue Bonds of \$695,000 to pay for improvements to the water treatment plant. The improvements did not cost as much as anticipated so the bond proceeds came to \$589,000 of which \$71,000 principal had been paid by the Utilities as of June 30, 2007. The remaining proceeds are to be repaid over a twenty-year period starting June 1, 2005, with a fixed interest rate of 3.00%. The revenue bond resolution establishes that the water utilities maintain net revenues at a level not less than 110% of the amount of principal and interest on the water revenue bond falling due in the same year. The resolution also establishes a sinking fund which is to be depleted at least once each bond year except for a reasonable carryover amount.

The Utilities approved issuance of Sewer Revenue Bonds of \$700,000 to pay for improvements to the wastewater treatment system. The Utilities is drawing down funds as needed to pay for this project. As of June 30, 2007, \$627,955 had been received. The Utilities anticipates receiving the balance of the loan proceeds during the next fiscal year. These proceeds are

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2007

to be repaid over a twenty-year period starting June 1, 2006, with a fixed interest rate of 3.00%. As of June 30, 2007 the Utilities have paid \$26,000 of principal. The revenue bond resolution establishes that the wastewater treatment system maintain net revenues at a level not less than 110% of the amount of principal and interest on the sewer revenue bond falling due in the same year.

**(4) Pension and Retirement Benefits**

The Utilities 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 covered salary and the Utilities is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$12,595, \$13,014, and \$12,435 respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

Utilities employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation payable to employees at June 30, 2007, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 10,744
	=====

This liability has been computed based on rates of pay in effect at June 30, 2007.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2007

**(6) Risk Management**

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

**(7) Construction Commitment**

The Gowrie Municipal Utilities has entered into a contract for approximately \$1,020,000 for wastewater treatment system improvements. As of June 30, 2007, costs of approximately \$1,007,000 have been incurred. The balance of the contract remaining at June 30, 2007 will be paid as work on the project progresses.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Electric	Water	\$ 2,525
		=====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

## **Required Supplementary Information**

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - Proprietary Funds

Required Supplementary Information

Year ended June 30, 2007

	Proprietary Funds	<u>Budgeted Amounts</u>		Final to Actual
	<u>Actual</u>	<u>Original</u>	<u>Final</u>	<u>Variance</u>
Receipts:				
Use of money and property	\$ 30,400	25,290	25,290	5,110
Charges for service	1,162,996	1,119,849	1,119,849	43,147
Miscellaneous	<u>123,553</u>	<u>93,555</u>	<u>93,555</u>	<u>29,998</u>
Total receipts	<u>1,316,949</u>	<u>1,238,694</u>	<u>1,238,694</u>	<u>78,255</u>
Disbursements:				
Business type activities	<u>2,071,453</u>	<u>1,839,189</u>	<u>2,314,581</u>	<u>243,128</u>
Excess (deficiency) of receipts over (under) disbursements	(754,504)	(600,495)	(1,075,887)	321,383
Other financing sources, net	<u>898,604</u>	<u>1,038,414</u>	<u>1,038,414</u>	<u>(139,810)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	144,100	437,919	(37,473)	181,573
Balances beginning of year	<u>635,123</u>	<u>(588,430)</u>	<u>(588,430)</u>	<u>1,223,553</u>
Balances end of year	<u>\$ 779,223</u>	<u>(150,511)</u>	<u>(625,903)</u>	<u>1,405,126</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
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Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council of the City of Gowrie annually adopts a budget on the cash basis following required public notice and hearing for all funds. Gowrie Municipal Utilities' budget is part of the City of Gowrie's budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Gowrie Municipal Utilities' disbursements are under the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$475,392. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, Utility disbursements did not exceed the amounts budgeted.

## **Other Supplementary Information**

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 1

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2007

	<u>Water</u>	<u>Garbage</u>	<u>Meter Deposits</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ 3,960			3,960
Charges for service	163,098	62,739	-	225,837
Miscellaneous	161	-	5,674	5,835
Total operating receipts	<u>167,219</u>	<u>62,739</u>	<u>5,674</u>	<u>235,632</u>
Operating disbursements:				
Business type activities	96,082	60,430	4,939	161,451
Total operating disbursements	<u>96,082</u>	<u>60,430</u>	<u>4,939</u>	<u>161,451</u>
Excess of operating receipts over operating disbursements	<u>71,137</u>	<u>2,309</u>	<u>735</u>	<u>74,181</u>
Non-operating receipts (disbursements):				
Interest on investments	8,506	319	107	8,932
Miscellaneous	1,860	-	-	1,860
Debt service	(80,351)	-	-	(80,351)
Net non-operating receipts (disbursements)	<u>(69,985)</u>	<u>319</u>	<u>107</u>	<u>(69,559)</u>
Excess of receipts over disbursements	1,152	2,628	842	4,622
Operating transfers in	78,354	-	-	78,354
Operating transfers out	(80,879)	-	-	(80,879)
Net change in cash balances	(1,373)	2,628	842	2,097
Cash balances beginning of year	<u>149,047</u>	<u>16,501</u>	<u>6,272</u>	<u>171,820</u>
Cash balances end of year	<u>\$ 147,674</u>	<u>19,129</u>	<u>7,114</u>	<u>173,917</u>
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt Service	\$ 82,217	-	-	82,217
Improvements	99,954	-	-	99,954
Unreserved	(34,497)	19,129	7,114	(8,254)
Total cash basis fund balances	<u>\$ 147,674</u>	<u>19,129</u>	<u>7,114</u>	<u>173,917</u>

See accompanying independent auditor's report

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 2

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund - Electric Department

As of and for the year ended June 30, 2007

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sale of electricity	\$ 792,641	-	792,641
Reconnection fees	679	-	679
	793,320	-	793,320
Miscellaneous:			
Merchandise and labor sales	18,944	-	18,944
Sales tax collected	30,284	-	30,284
	49,228	-	49,228
Total operating receipts	842,548	-	842,548
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	160,422	-	160,422
FICA - Employer's portion	12,272	-	12,272
IPERS - Employer's portion	8,925	-	8,925
Group insurance	30,362	-	30,362
Uniforms	649	-	649
Workers compensation	3,891	-	3,891
	216,521	-	216,521
Services and commodities:			
Advertising and legal publication	1,612	-	1,612
Consulting and legal	1,625	-	1,625
Power purchased	347,262	-	347,262
General insurance	15,086	-	15,086
Miscellaneous contractual work	4,890	-	4,890
Postage and shipping	1,547	-	1,547
Sales and property tax remitted	43,543	-	43,543
Telephone	1,561	-	1,561
Travel and conference	589	-	589
Utility service	13,985	-	13,985
Dues and membership	5,559	-	5,559
Buildings and maintenance supplies	7,655	-	7,655
Minor equipment	4,457	-	4,457
Motor vehicle supplies and maintenance	5,845	-	5,845
Office supplies	5,251	-	5,251
Operating supplies and materials	10,411	-	10,411

(continued)

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 2

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund - Electric Department

As of and for the year ended June 30, 2007

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Refunds	120	-	120
Contribution to City	23,522	-	23,522
Distribution supplies and material	<u>25,833</u>	-	<u>25,833</u>
	<u>520,353</u>	-	<u>520,353</u>
Total operating disbursements	<u>736,874</u>	-	<u>736,874</u>
Excess of operating receipts over operating disbursements	<u>105,674</u>	-	<u>105,674</u>
Non-operating receipts (disbursements):			
Interest on investments	15,696	148	15,844
Miscellaneous	63,713	-	63,713
Capital outlay:			
Boom truck	(40,275)	-	(40,275)
Fuel tanks project	(5,264)	-	(5,264)
Debt service:			
Principal payments	-	(22,907)	(22,907)
Interest payments	-	(7,409)	(7,409)
Net non-operating receipts (disbursements)	<u>33,870</u>	<u>(30,168)</u>	<u>3,702</u>
Excess (deficiency) of receipts over (under) disbursements	139,544	(30,168)	109,376
Operating transfers in	-	30,245	30,245
Operating transfers out	<u>(27,720)</u>	-	<u>(27,720)</u>
Net change in cash balances	111,824	77	111,901
Cash balances beginning of year	<u>425,553</u>	<u>2,702</u>	<u>428,255</u>
Cash balances end of year	<u>\$ 537,377</u>	<u>2,779</u>	<u>540,156</u>
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	2,779	2,779
Unreserved	<u>537,377</u>	-	<u>537,377</u>
Total cash basis fund balances	<u>\$ 537,377</u>	<u>2,779</u>	<u>540,156</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund - Water Department

As of and for the year ended June 30, 2007

	Water Operations & <u>Maintenance</u>	Water <u>Sinking-Well</u>	Water Sinking <u>2004 Project</u>
Operating receipts:			
Use of money and property:			
Tower rent	\$ -	-	-
Charges for service:			
Sale of water	159,971	-	-
Reconnection fees	325	-	-
	160,296	-	-
Miscellaneous:			
Merchandise and labor sales	161	-	-
Total operating receipts	160,457	-	-
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	33,928	-	-
FICA - Employer's portion	2,596	-	-
IPERS - Employer's portion	1,949	-	-
Group insurance	3,823	-	-
Uniforms	200	-	-
Workers compensation	1,240	-	-
	43,736	-	-
Services and commodities:			
Advertising and legal publication	444	-	-
Consulting and legal	1,322	-	-
General insurance	3,537	-	-
Miscellaneous contractual work	18,789	-	-
Postage and shipping	571	-	-
Telephone	955	-	-
Travel and conference	194	-	-
Utility service	12,710	-	-
Dues and memberships	366	-	-
Building and maintenance supplies	770	-	-
Chemicals and testing	3,033	-	-
Motor vehicle supplies and maintenance	797	-	-
Office supplies	1,612	-	-
Operating supplies and materials	2,173	-	-
Distribution supplies and material	3,119	-	-
Refunds	1,365	-	-
Contribution to City	589	-	-
	52,346	-	-
Total operating disbursements	96,082	-	-

Schedule 3

<u>Water Reserve</u>	<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
-	3,960	-	3,960
-	2,802	-	162,773
-	-	-	325
-	2,802	-	163,098
-	-	-	161
-	6,762	-	167,219
-	-	-	33,928
-	-	-	2,596
-	-	-	1,949
-	-	-	3,823
-	-	-	200
-	-	-	1,240
-	-	-	43,736
-	-	-	444
-	-	-	1,322
-	-	-	3,537
-	-	-	18,789
-	-	-	571
-	-	-	955
-	-	-	194
-	-	-	12,710
-	-	-	366
-	-	-	770
-	-	-	3,033
-	-	-	797
-	-	-	1,612
-	-	-	2,173
-	-	-	3,119
-	-	-	1,365
-	-	-	589
-	-	-	52,346
-	-	-	96,082

(continued)

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund - Water Department

As of and for the year ended June 30, 2007

	Water Operations & <u>Maintenance</u>	Water <u>Sinking-Well</u>	Water Sinking <u>2004 Project</u>
Excess of operating receipts over operating disbursements	<u>64,375</u>	<u>-</u>	<u>-</u>
Non-operating receipts (disbursements):			
Interest on investments	3,723	-	-
Miscellaneous	1,860	-	-
Debt service:			
Principal payments	-	(38,990)	(23,000)
Interest payments	<u>-</u>	<u>(779)</u>	<u>(17,582)</u>
Net non-operating receipts (disbursements)	<u>5,583</u>	<u>(39,769)</u>	<u>(40,582)</u>
Excess (deficiency) of receipts over (under) disbursements	69,958	(39,769)	(40,582)
Operating transfers in	-	36,559	41,795
Operating transfers out	<u>(80,785)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(10,827)	(3,210)	1,213
Cash balances beginning of year	<u>(23,670)</u>	<u>3,210</u>	<u>3,504</u>
Cash balances end of year	<u>\$ (34,497)</u>	<u>-</u>	<u>4,717</u>
<b>Cash Basis Fund Balances</b>			
Reserved for:			
Debt service	\$ -	-	4,717
Improvements	-	-	-
Unreserved	<u>(34,497)</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ (34,497)</u>	<u>-</u>	<u>4,717</u>

See accompanying independent auditor's report.

Schedule 3

<u>Water Reserve</u>	<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
-	6,762	-	71,137
3,727	1,056	-	8,506
-	-	-	1,860
-	-	-	(61,990)
-	-	-	(18,361)
<u>3,727</u>	<u>1,056</u>	<u>-</u>	<u>(69,985)</u>
3,727	7,818	-	1,152
-	-	-	78,354
(94)	-	-	(80,879)
3,633	7,818	-	(1,373)
<u>108,239</u>	<u>37,764</u>	<u>20,000</u>	<u>149,047</u>
<u>111,872</u>	<u>45,582</u>	<u>20,000</u>	<u>147,674</u>
77,500	-	-	82,217
34,372	45,582	20,000	99,954
-	-	-	(34,497)
<u>111,872</u>	<u>45,582</u>	<u>20,000</u>	<u>147,674</u>

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 4

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund - Sewer Department

As of and for the year ended June 30, 2007

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sewer rental fees	\$ 142,984	-	142,984
Miscellaneous:			
Merchandise and labor sales	855	-	855
Total operating receipts	<u>143,839</u>	<u>-</u>	<u>143,839</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	29,941	-	29,941
FICA - Employer's portion	2,290	-	2,290
IPERS - Employer's portion	1,720	-	1,720
Group insurance	3,822	-	3,822
Uniforms	200	-	200
Workers compensation	898	-	898
	<u>38,871</u>	<u>-</u>	<u>38,871</u>
Services and commodities:			-
Advertising and legal publication	165	-	165
Consulting and legal	6,477	-	6,477
General insurance	2,585	-	2,585
Miscellaneous contractual work	15,880	-	15,880
Postage and shipping	367	-	367
Telephone	499	-	499
Travel and conference	100	-	100
Utility service	10,798	-	10,798
Dues and membership	342	-	342
Building and maintenance supplies	380	-	380
Motor vehicle supplies and maintenance	797	-	797
Office supplies	1,209	-	1,209
Operating supplies and materials	7,003	-	7,003
Distribution supplies and materials	90	-	90
	<u>46,692</u>	<u>-</u>	<u>46,692</u>
Total operating disbursements	<u>85,563</u>	<u>-</u>	<u>85,563</u>

(continued)

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 4

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund - Sewer Department

As of and for the year ended June 30, 2007

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Excess of operating receipts over operating disbursements	<u>58,276</u>	<u>-</u>	<u>58,276</u>
			-
Non-operating receipts (disbursements):			-
Interest on investments	1,620	44	1,664
Miscellaneous	2,917	-	2,917
Proceeds from state revolving loan	531,885	-	531,885
Intergovernmental - Community Development Block Grant	366,719	-	366,719
Capital outlay:			-
Wastewater improvements project	(892,098)	-	(892,098)
Debt service:			-
Principal payments	-	(26,000)	(26,000)
Interest payments	<u>-</u>	<u>(13,261)</u>	<u>(13,261)</u>
Net non-operating receipts (disbursements)	<u>11,043</u>	<u>(39,217)</u>	<u>(28,174)</u>
			-
Excess (deficiency) of receipts over (under) disbursements	69,319	(39,217)	30,102
			-
Operating transfer in	-	36,497	36,497
Operating transfer out	<u>(36,497)</u>	<u>-</u>	<u>(36,497)</u>
			-
Net change in cash balances	32,822	(2,720)	30,102
			-
Cash balances beginning of year	<u>28,393</u>	<u>6,655</u>	<u>35,048</u>
			-
Cash balances end of year	<u><u>61,215</u></u>	<u><u>3,935</u></u>	<u><u>65,150</u></u>
 <b>Cash Basis Fund Balances</b>			
Reserved for:			
Debt service	-	3,935	3,935
Unreserved	<u>61,215</u>	<u>-</u>	<u>61,215</u>
			-
Total cash basis fund balances	<u><u>\$ 61,215</u></u>	<u><u>3,935</u></u>	<u><u>65,150</u></u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 5

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balance  
Proprietary Fund - Garbage Department

As of and for the year ended June 30, 2007

Operating receipts:	
Charges for service:	
Garbage service	\$ <u>62,739</u>
Total operating receipts	<u>62,739</u>
Operating disbursements:	
Business type activities:	
Services and commodities:	
Miscellaneous contractual work	57,011
Other agency payments	<u>3,419</u>
Total operating disbursements	<u>60,430</u>
Excess of operating receipts over operating disbursements	2,309
Non-operating receipts:	
Interest on investments	<u>319</u>
Excess of receipts over disbursements	2,628
Cash balance beginning of year	<u>16,501</u>
Cash balance end of year	<u><u>\$ 19,129</u></u>
<b>Cash Basis Fund Balance</b>	
Unreserved	<u>19,129</u>
Total cash basis fund balance	<u><u>\$ 19,129</u></u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule of Indebtedness

Year ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Loan payable - Security Savings Bank	Apr 29, 2003	2.65%	\$ 150,000
Electric Revenue Note - Security Savings Bank	Mar 9, 2004	3.65%	\$ 250,000
Water Revenue Bonds - State Revolving Fund	Jul 20, 2004	3.00%	\$ 695,000
Sewer Revenue Bonds - State Revolving Fund	May 15, 2006	3.00%	\$ 700,000

See accompanying independent auditor's report.

Schedule 6

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$ 38,990</u>	<u>-</u>	<u>38,990</u>	<u>-</u>	<u>779</u>	<u>-</u>
<u>\$ 208,642</u>	<u>-</u>	<u>22,906</u>	<u>185,736</u>	<u>7,409</u>	<u>-</u>
<u>\$ 541,000</u>	<u>-</u>	<u>23,000</u>	<u>518,000</u>	<u>17,582</u>	<u>-</u>
<u>\$ 96,071</u>	<u>531,884</u>	<u>26,000</u>	<u>601,955</u>	<u>13,261</u>	<u>-</u>

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 7

Note Maturities

June 30, 2007

Year Ending <u>June 30,</u>	Electric Revenue Note	
	Issued March 9, 2004	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2008	3.65	23,751
2009	3.65	24,626
2010	3.65	25,533
2011	3.65	26,473
2012	3.65	27,448
2013	3.65	28,459
2014	3.65	<u>29,446</u>
Total		<u>\$ 185,736</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 8

Revenue Bond Maturities

June 30, 2007

Year Ending June 30,	<u>Water Revenue Bonds</u>		<u>Sewer Revenue Bonds</u>		<u>Total</u>
	Series 2004 Issued July 20, 2004		Series 2006 Issued June 1, 2006		
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2008	3.00 %	24,000	3.00 %	27,000	51,000
2009	3.00	25,000	3.00	28,000	53,000
2010	3.00	25,000	3.00	29,000	54,000
2011	3.00	26,000	3.00	29,000	55,000
2012	3.00	27,000	3.00	30,000	57,000
2013	3.00	28,000	3.00	31,000	59,000
2014	3.00	28,000	3.00	32,000	60,000
2015	3.00	29,000	3.00	33,000	62,000
2016	3.00	30,000	3.00	34,000	64,000
2017	3.00	31,000	3.00	35,000	66,000
2018	3.00	32,000	3.00	36,000	68,000
2019	3.00	33,000	3.00	37,000	70,000
2020	3.00	34,000	3.00	38,000	72,000
2021	3.00	35,000	3.00	39,000	74,000
2022	3.00	36,000	3.00	41,000	77,000
2023	3.00	37,000	3.00	42,000	79,000
2024	3.00	38,000	3.00	43,000	81,000
2025		-	3.00	17,955	17,955
	Total	<u>\$ 518,000</u>		<u>\$ 601,955</u>	<u>\$ 1,119,955</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 9

Schedule of Insurance Coverage

Year ended June 30, 2007

<u>Insurer</u>	<u>Coverage</u>	<u>Amount</u>
Employers Mutual Casualty Insurance Company (Expires 4-1-2008)	<u>Comprehensive General Liability</u>	\$ 2,000,000/\$2,000,000
	Bodily injury	1,000,000/1,000,000
	Fire damage	100,000
	Medical expense	5,000
	<u>Blanket Building and Personal Property</u>	4,018,412
	<u>Automobile Coverage</u>	
	Bodily injury	1,000,000
	Collision (\$1,000 deductible)	ACV, or cost of repairs
	Comprehensive (\$100 deductible)	ACV, or cost of repairs
	Uninsured motorist	1,000,000
Underinsured motorist	1,000,000	
Medical payments	5,000	
	<u>Umbrella Liability</u>	2,000,000/2,000,000
	Retained limit	10,000
	<u>Comprehensive Employee Dishonesty Bond</u>	
	Public employees (\$2,000 deductible)	200,000
	Forgery or alteration (\$250 deductible)	10,000
	<u>Worker's Compensation</u>	500,000
	<u>Board Members and Employees Liability</u>	
	Each loss (\$1,500 deductible)	1,000,000
	Aggregate	1,000,000
	<u>Premise Burglary</u>	
	Inside/outside premises	10,000/10,000
	Premise burglary	15,000
Cincinnati Insurance Company (Expires 4-1-2008)	<u>Boiler Insurance</u>	
	Engines and generators (\$25,000 deductible)	5,000,000

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 10

Electric Department Data

Year ended June 30, 2007

1. Number of customers by rate category (by meters)

Commercial	139
Residential	470
Street lights	7

2. Electricity purchased – 7,921,878 K.W.H.

3. Electricity billed – 7,133,974 K.W.H.

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 11

Water Department Data

Year ended June 30, 2007

Number of customers served      490

Water rates:

\$3.50 per 1,000 gallons - \$11.00 minimum plus \$.50 per additional outlet or connection point in one building.

\$ .10 per 1,000 gallons for water tower maintenance.

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 12

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	05-WS-047	\$ 371,213
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources State Revolving Loan Fund	66.458	CS-192299-01	<u>376,971</u>
Total			\$ 748,184 =====

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Gowrie Municipal Utilities and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report  
on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on An Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Trustees of  
Gowrie Municipal Utilities  
Gowrie, Iowa

We have audited the accompanying financial statement of the business type activities, each major fund, and the aggregate remaining fund information of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the Utilities' basic financial statement listed in the table of contents, and have issued our report thereon dated January 9, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Gowrie Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Gowrie Municipal Utilities' internal control over financial reporting.

Accordingly, we do not express an opinion on the effectiveness of Gowrie Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Gowrie Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of Gowrie Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by Gowrie Municipal Utilities' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Gowrie Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gowrie Municipal Utilities' 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. 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 citizens of Gowrie Municipal Utilities and other parties to whom Gowrie Municipal Utilities may report, including federal awarding agencies and pass-through entities. 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 Gowrie 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.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

January 9, 2008

Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Trustees of  
Gowrie Municipal Utilities:

Compliance

We have audited the compliance of Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. Gowrie Municipal Utilities' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Gowrie Municipal Utilities' management. Our responsibility is to express an opinion on Gowrie Municipal Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gowrie Municipal Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gowrie Municipal Utilities' compliance with those requirements.

In our opinion, Gowrie Municipal Utilities complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of Gowrie Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Gowrie Municipal Utilities' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gowrie Municipal Utilities' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Utilities' internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the Utilities' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utilities' ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Utilities' internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Utilities' internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Gowrie Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit Gowrie Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Gowrie Municipal Utilities and other parties to whom Gowrie Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

January 9, 2008

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2007

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major programs were disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Gowrie Municipal Utilities did not qualify as a low-risk auditee.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2007

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person. The Utilities has one employee handling most of the financial duties, including reconciling accounts and recording financial data.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - Response acknowledged. The Utilities should utilize administrative personnel to provide additional control through review of financial transactions and reports.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2007

**SIGNIFICANT DEFICIENCY:**

**CFDA Number 14.228: Community Development Block Grants/States Program**

**Pass-through Agency Number: 05-WS-047**

**Federal Award Year: 2007**

**Department of Housing and Urban Development Passed through the Iowa Department of Economic Development**

**CFDA Number 66.458: Capitalization Grants for Clean Water State Revolving Funds**

**Pass-through Agency Number: CS-19229901**

**Federal Award Year: 2007**

**Department of Environmental Protection Agency passed through the Iowa Department of Natural Resources**

III-A-07 – Segregation of Duties over Federal Receipts and Disbursements – The Utilities has one employee handling most of the financial duties, including reconciling accounts and recording financial data. See II-A-07.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-07 Certified Budget - The City of Gowrie and Gowrie Municipal Utilities submit a combined budget. Utility disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.

IV-B-07 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-07 Travel Expense - No disbursements of Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

Gowrie Municipal Utilities  
 A Component Unit of the City of Gowrie  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2007

IV-D-07 Business Transactions - Business transactions between the Utilities and Utilities' officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Keven Sturm, Trustee	Repairs	\$ 323

In accordance with Chapter 362.5 (10) of the Code of Iowa, the transactions with the Trustee, Sturm, do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year.

IV-E-07 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure the coverage is adequate for current operations.

IV-F-07 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-07 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 Utilities' investment policy were noted.

IV-H-07 Revenue Bond and Notes - The Utilities has complied with the revenue bond and note resolutions.