

MARSHALLTOWN WATER WORKS

**Independent Auditors' Reports
Financial Statements and
Supplementary Information
Schedule of Findings**

June 30, 2009 and 2008

MARSHALLTOWN WATER WORKS

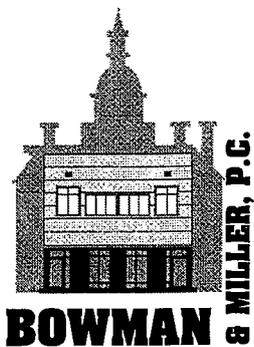
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MARSHALLTOWN WATER WORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Trustee – Chairperson	May 1, 2012
Jerry Young	Trustee	May 1, 2011
Kenneth Vinson	Trustee	May 1, 2010
Steve Sincox	CEO/General Manager	Indefinite
Tim Wilson	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 statements of net assets of the Marshalltown Water Works, Marshalltown, Iowa, a component unit of the City of Marshalltown, as of June 30, 2009 and 2008, 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 referred to above present only the Marshalltown Water Works, a component unit of the City of Marshalltown and do not intend to present fairly the financial position of the City of Marshalltown, Iowa, as of June 30, 2009 and 2008, and the changes in its financial position and cash flows of its proprietary fund types 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, a component unit of the City of Marshalltown, as of June 30, 2009 and 2008, 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 October 5, 2009, 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, and contracts 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, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 6 and 22 through 24 are not required parts of the 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information included in pages 25 through 34 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
October 5, 2009

MANAGEMENT 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, 2009.

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

2009 FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES

- ◆ Operating revenues of the Water Works increased 4.3%, or approximately \$123,000, from fiscal 2008 to fiscal 2009. Increase in water usage by residential and wholesale customers accounted for approximately \$94,000 of this increase.
- ◆ Operating expenses of the Water Works increased 8.4%, or approximately \$244,000, in fiscal 2009 from fiscal 2008. Salary and benefits increased approximately \$106,000 and chemical expense increased approximately \$133,000.
- ◆ The Water Works net assets increased 7.8% or approximately \$1,052,000 due primarily to the issuance of a capital loan note for the construction of a new water tower.
- ◆ During calendar year 2008 Marshalltown Water Works performed extensive testing of its well field in an attempt to find future production wells. Three sites were identified for future wells. Hydraulic modeling of the aquifer indicated there was enough capacity to expand the treatment facility if necessary. Due to the loss of a potential large industrial customer, expansion of the treatment facility is no longer being considered.
- ◆ 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 release from the bond fund and the Capital Reserve Account.

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 statements of net assets, 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 statement provide additional information that is essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Water Work's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplemental information provides detailed information about the statements of net assets, expense accounts and debt of the Water Works.

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

The statements of net assets 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

- ◆ Operating income for the Water Works increased \$122,903 over 2008 and operating expenses increased \$243,697 leaving an operating loss of \$127,873. After all non-operating income and expenses were recorded, the Water Works reported a net loss of \$5,498 for the year ending June 30, 2009.
- ◆ Due to weather conditions, the change in Central Iowa Water Association purchases and the loss of a large industrial customer the Water Works' operating revenues were \$3,010,981, and as a result, operating revenue did not meet the projected increase over the fiscal year 2008. Expenses for fiscal year 2009 were at 98% of budgeted numbers making them below the budget approved by the Board of Trustees in March, 2008.

DEBT ADMINISTRATION

- ◆ During the fiscal year 2009, the Marshalltown Water Works had \$1,025,000 in a water revenue capital loan note. This was a result of issuing a water revenue capital loan note in 2009 for the construction of a new water tower.

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 2009 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received complaints on pressure or quality and as those complaints increase in a certain area we look at the possibility of upgrading those systems to meet the demands of our customers.
- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.

- ◆ During fiscal 2009, the Water Works constructed a 16" water main that is the second feed line for the 5th St. Booster Station.
- ◆ The Water Works began modifying its wells to raise them after the 2008 flooding. This plan will place all wells above the 100 year flood elevations.
- ◆ Chemical feed equipment will be replaced at the treatment plant during fiscal 2010.
- ◆ The Water Works has completed a brick replacement on the front of the office building to correct a water intrusion problem.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- ◆ In June 2004, the Water Works Board of Trustees employed Economic and Engineering Services to update the Cost-of-Service Study. Economic and Engineering Services recommended to the Board that the Water Works raise rates to replenish the operative and capital reserves by an additional \$200,000 per year until a minimum of \$500,000 is in the reserve fund. Also they assumed 1.25 rate times the annual depreciation expense for capital project funding from rates which would equal \$700,000 per year. Using these premises, the proposed rates were calculated and a three-year increase was proposed.
- ◆ The Board approved the third year of the proposed rate increase and made it effective on July 1, 2008. These rate increases have accounted for the turnaround in the financial condition of the Marshalltown Water Works.
- ◆ The new water tower is scheduled to be finished by June 2010.
- ◆ A new 16" water main connecting the new water tower to the existing distribution system will be constructed during fiscal 2010.

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 Steve Sincox or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

MARSHALLTOWN WATER WORKS

Statements of Net Assets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
<u>ASSETS:</u>			
Current assets:			
Cash and cash equivalents	\$ 1,244,562	539,787	704,775
Accounts receivable	230,760	221,191	9,569
Other receivables	41,101	34,263	6,838
Prepaid expenses	78,968	80,850	(1,882)
Restricted assets:			
Sinking fund	18,108	-	18,108
Total current assets	<u>1,613,499</u>	<u>876,091</u>	<u>737,408</u>
Investments:			
Certificates of deposit	300,000	300,000	-
Capital reserve	<u>1,053,253</u>	<u>1,003,800</u>	<u>49,453</u>
Total investments	<u>1,353,253</u>	<u>1,303,800</u>	<u>49,453</u>
Capital assets:			
Capital assets	22,629,330	21,817,345	811,985
Accumulated depreciation	<u>(11,134,801)</u>	<u>(10,588,261)</u>	<u>(546,540)</u>
Net capital assets	<u>11,494,529</u>	<u>11,229,084</u>	<u>265,445</u>
Total assets	<u>\$ 14,461,281</u>	<u>13,408,975</u>	<u>1,052,306</u>

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
<u>LIABILITIES:</u>			
Current liabilities:			
Accounts payable	\$ 58,338	68,538	(10,200)
Due to other governments:			
Landfill fees	12,862	11,941	921
Sewer fees	224,610	202,977	21,633
Storm sewer fees	26,321	24,998	1,323
Sewer interest	-	96	(96)
Customer deposits - sewer	62,965	60,895	2,070
Customer deposits - water	46,435	44,995	1,440
Accrued liabilities	123,140	107,427	15,713
Current portion of long-term debt	180,000	-	180,000
Total current liabilities	<u>734,671</u>	<u>521,867</u>	<u>212,804</u>
Long-term debt:			
Capital loan note	1,025,000	-	1,025,000
Less: current portion	(180,000)	-	(180,000)
Total long-term liabilities	<u>845,000</u>	<u>-</u>	<u>845,000</u>
Total liabilities	<u>1,579,671</u>	<u>521,867</u>	<u>1,057,804</u>
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	10,469,529	11,229,084	(759,555)
Restricted for revenue note retirement	198,108	-	198,108
Unrestricted:			
Board designated for capital improvements	1,053,253	1,003,800	49,453
Undesignated	1,160,720	654,224	506,496
Total net assets	<u>12,881,610</u>	<u>12,887,108</u>	<u>(5,498)</u>
 Total liabilities and net assets	 <u>\$ 14,461,281</u>	 <u>13,408,975</u>	 <u>1,052,306</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,259,830	1,226,261	33,569
Multi-family	166,058	151,255	14,803
Commercial	386,713	357,475	29,238
Irrigation	54,177	46,068	8,109
Industrial	490,014	510,632	(20,618)
Wholesale	527,650	466,797	60,853
Non-metered	869	741	128
City contract services	62,214	62,236	(22)
Penalties	31,314	38,254	(6,940)
Customer service	26,315	23,379	2,936
Testing laboratory	5,827	4,980	847
Total operating revenues	<u>3,010,981</u>	<u>2,888,078</u>	<u>122,903</u>
Operating expenses:			
Salaries and wages	967,740	915,432	52,308
Payroll taxes and benefits	307,440	253,703	53,737
Utilities	249,864	271,856	(21,992)
Fuels	16,672	19,157	(2,485)
Supplies	98,696	87,979	10,717
Maintenance	48,801	73,624	(24,823)
Chemicals	699,335	566,119	133,216
Contract services	23,351	13,383	9,968
Insurance	82,533	74,496	8,037
Professional fees	34,476	15,349	19,127
Other operating expense	36,583	31,947	4,636
Depreciation	573,363	572,112	1,251
Total operating expenses	<u>3,138,854</u>	<u>2,895,157</u>	<u>243,697</u>
Operating loss	<u>(127,873)</u>	<u>(7,079)</u>	<u>(120,794)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	52,725	83,930	(31,205)
Rentals	1,470	500	970
Timber sales	15,000	-	15,000
Miscellaneous income	64,397	8,977	55,420
Interest expense	(2,000)	(14,600)	12,600
Miscellaneous expense	(9,217)	(9,562)	345
Total non-operating revenues (expenses)	<u>122,375</u>	<u>69,245</u>	<u>53,130</u>
Change in net assets	(5,498)	62,166	(67,664)
Net assets, beginning	<u>12,887,108</u>	<u>12,824,942</u>	<u>62,166</u>
Net assets, ending	<u>\$ 12,881,610</u>	<u>12,887,108</u>	<u>(5,498)</u>

MARSHALLTOWN WATER WORKS

Statements of Cash Flows For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,976,466	2,957,002
Cash payments to suppliers for goods and services	(1,246,488)	(1,146,667)
Cash payments to employees and professional contractors for services	<u>(1,284,317)</u>	<u>(1,147,931)</u>
Net cash provided by operating activities	<u>445,661</u>	<u>662,404</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	1,700,000	1,150,000
Purchase of investments	(1,749,453)	(1,251,831)
Investment income	52,725	83,930
Receipt of rental income	1,470	500
Other operating revenues (expenses)	<u>70,180</u>	<u>(585)</u>
Net cash provided (used) in investing activities	<u>74,922</u>	<u>(17,986)</u>
Cash flows from capital and related financing activities:		
Payment on revenue bond	-	(365,000)
Issuance of revenue note	1,025,000	-
Interest paid on revenue bond/note	(2,000)	(14,600)
Acquisition of capital assets	<u>(838,808)</u>	<u>(297,279)</u>
Net cash provided (used) by financing activities	<u>184,192</u>	<u>(676,879)</u>
Net change in cash and cash equivalents	704,775	(32,461)
Cash and cash equivalents at beginning of year	<u>539,787</u>	<u>572,248</u>
Cash and cash equivalents at end of year	<u>\$ 1,244,562</u>	<u>539,787</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (127,873)	(7,079)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	573,363	572,112
Bond origination fees	-	1,278

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued) Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
(Increase) decrease in assets:		
Accounts receivable	(9,569)	46,361
Other receivables	(6,838)	(9,070)
Prepaid expenses	1,882	(1,541)
Sinking fund	(18,108)	31,633
Increase (decrease) in liabilities:		
Accounts payable	(10,200)	(2,723)
Payable to sewer fund	21,633	11,448
Payable to landfill fund	921	596
Payable to storm sewer fund	1,323	386
Customer deposits-sewer	2,070	(1,110)
Customer deposits-water	1,440	(125)
Sewer interest	(96)	(120)
Accrued liabilities	<u>15,713</u>	<u>20,358</u>
 Net cash provided by operating activities	 <u>\$ 445,661</u>	 <u>662,404</u>

Required Supplementary Information

MARSHALLTOWN WATER WORKS

Notes to Financial Statements June 30, 2009 and 2008

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. 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.

B. Accounts Receivable

Accounts receivable represent uncollected amounts billed for water usage at June 30, 2009 and 2008. 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.

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. 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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 1. Summary of Significant Accounting Policies (Continued)

E. 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. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. 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. Reportable capital assets are defined by the Water Works as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Plants, wells, storage and distribution	\$5,000
Meters	5,000
Equipment and vehicles	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Plants, wells and storage	10-40 years
Distribution property	50-99 years
Meters	10-20 years
Vehicles	5 years
Equipment	7-10 years

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, 2009 and 2008 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

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 2. Cash and Pooled Investments (Continued)

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, 2009 and 2008.

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

Note 3. Water Revenue Capital Loan Note

Annual debt service requirements to maturity for the revenue capital loan note is as follows:

	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2009
Water revenue note, series 2009	Apr 15, 2009	3.25%	June 1, 2014	\$180,000-225,000	1,025,000	1,025,000

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 180,000	37,297	217,297
2011	200,000	27,463	227,463
2012	205,000	20,800	225,800
2013	215,000	13,813	228,813
2014	225,000	7,312	232,312
Total	\$1,025,000	106,685	1,131,685

The Water Works has pledged future water customer revenues, net of specified operating expenditures, to repay the \$1,025,000 water revenue note issued in April, 2009. Proceeds from the note provided financing for constructing a new water storage tank. The note is payable solely from the water customer net revenues and is payable through 2014. Annual principal and interest on the note is expected to require less than 50 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$1,131,685. For the current year,

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 3. Water Revenue Capital Loan Note (Continued)

principal and interest paid and total customer net revenues (operating losses plus depreciation expense) were \$ -0- and \$445,490, respectively.

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

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sinking account for the purpose of making the note principal and interest payments when due.
- (c) The Board will provide for the establishment of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the Water Works and to have a balance of net revenues equal to at least 125% of the average annual payments of principal and interest on the note.

No interest was capitalized for 2009 and 2008.

Note 4. 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 in the statement of net assets based on current rates of pay.

Note 5. 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, 2009, 2008, and 2007 were \$543,736, \$491,042, and \$442,044, respectively, while total payrolls for 2009, 2008 and 2007 were \$908,787, \$879,180 and \$836,727, 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 their average monthly compensation multiplied by the number of years of consecutive service for the years ended 2009, 2008 and 2007. 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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 5. Pension and Retirement Benefits (Continued)

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 a 7% investment return, 4% 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, 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008*</u>	<u>2007</u>
Vested:			
Active	\$ 241,498	315,770	301,148
Retired	<u>1,442,300</u>	<u>841,157</u>	<u>814,076</u>
Total vested	1,683,798	1,156,927	1,115,224
Employer financed	<u>594,643</u>	<u>770,569</u>	<u>745,201</u>
Total pension benefit obligations	\$ <u>2,278,441</u>	<u>1,927,496</u>	<u>1,860,245</u>
Net assets available for benefits at market value	\$ 1,010,404	1,279,541	1,353,974
(cost 2009: \$1,220,652)			
(cost 2008: \$1,237,710)			
(cost 2007: \$1,273,423)			
Prepaid (unfunded) pension	\$(1,268,037)	(647,955)	(506,271)

*Actuarial valuations were performed on April 1, 2009 and April 1, 2007. Estimated values have been calculated as of April 1, 2008.

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. Employer contribution rates for the years ended June 30, 2009 and 2008 were 6.75% plus an additional \$3,000 per payroll and for June 30, 2007 was 6.75%. Employee contributions for the years ended June 30, 2009 and 2008 were 3.75% and for June 30, 2007 was 3.25%. Contributions paid by the Water Works for the years ended June 30, 2009, 2008 and 2007 totaled \$91,232, \$34,708 and \$31,193, respectively, and the contributions paid by employees totaled \$20,397, \$19,282 and \$15,019, respectively.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 5. Pension and Retirement Benefits (Continued)

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>2009</u>	<u>2008*</u>	<u>2007</u>
Net assets available for benefits as percentages of the pension benefit obligations	44%	66%	73%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(280%)	(132%)	(112%)
Employer contributions (in accordance with actuarially determined requirements) as percentages of covered payroll	23.95%	6.75%	6.75%
Actuarial value of assets as a percentage of the actuarial accrued liability	43%	64%	69%
Ratio of the unfunded accrued liability to annual covered payroll	300%	149%	132%
Total unfunded accrued liability	\$ 1,360,603	731,551	597,006
Actuarial accrued liability	\$ 2,371,007	2,011,092	1,950,980
Actuarial value of plan assets	\$ 1,010,404	1,279,541	1,353,794

*Actuarial valuations were performed on April 1, 2009 and April 1, 2007. Estimated values have been calculated as of April 1, 2008.

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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 5. Pension and Retirement Benefits (Continued)

Plan members are required to contribute 4.10% of their annual covered salary and the Water Works is required to contribute 6.35% of covered payroll. Contribution requirements are established by state statute. The Water Works' contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$25,865, \$23,482, and \$22,694, respectively, equal to the required contributions for each year.

Note 6. Other Postemployment Benefits (OPEB)

The Water Works implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description – The Water Works operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 21 active members and 2 retired member's spouses in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully insured plan with Coventry Health Care of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Water Works. The Water Works currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Water Work's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Water Works. The Water Works has elected to calculate ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Water Work's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the Water Work's net OPEB obligation:

Annual required contribution	\$	14,815
Interest on net OPEB obligation		-
Adjustments to annual required contributions		-
Annual OPEB Cost		14,815
Contributions made		(3,390)
Increase in net OPEB obligation		11,425
Net OPEB obligation beginning of year		-
Net OPEB obligation end of year	\$	<u>11,425</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 6. Other Postemployment Benefits (OPEB) (Continued)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2009, the Water Works contributed \$88,457 to the medical plan. Plan members eligible for benefits contributed \$32,470 or 27% of the premium costs.

The Water Work's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$14,815	22.9%	\$11,425

Funded Status and Funding Progress – As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$95,737, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$95,737. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$822,816 and the ratio of the UAAL to covered payroll was 11.6 %. As of June 30, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 6. Other Postemployment Benefits (OPEB) (continued)

Mortality rates are from the 2004 United States Life Tables, applied on a gender-specific basis. Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for benefits.

Projected claim costs of the medical plan are \$249.36 per month for single retirees and \$556.07 per month for retirees and spouse. These costs were determined from the estimated age-adjusted premium rates of the plan and the method provided by the alternative measurement method under GASB 45. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 7. 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 2009 and 2008. There have been no reductions in insurance coverage from prior years.

Note 8. Concentrations of Credit Risk

Concentrations of credit risk 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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2009 and 2008

Note 9. Capital Assets

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

	<u>2009</u>	<u>2008</u>
Land	\$ 1,113,721	1,113,721
Plant and source of supply	9,183,691	9,072,904
Booster station	161,071	161,072
Distribution system and pipe	9,238,623	8,628,884
Meters	1,289,503	1,279,958
Machinery and equipment	435,172	432,302
Vehicles	241,167	231,923
Capital improvements	54,650	54,650
Capital improvements – buildings	501,223	448,576
Office equipment and furnishings	<u>410,509</u>	<u>393,355</u>
	22,629,330	21,817,345
Less accumulated depreciation	<u>(11,134,801)</u>	<u>(10,588,261)</u>
	<u>\$ 11,494,529</u>	<u>11,229,084</u>

Depreciation expense was \$573,363 for the year ended June 30, 2009 and \$572,112 for the year ended June 30, 2008.

MARSHALLTOWN WATER WORKS

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Balances - Budget to Actual Required Supplementary Information For the Year Ended June 30, 2009

	<u>Actual</u>	<u>Budgeted Amounts Original/Final</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for services	\$ 3,010,981	3,003,348	7,633
Miscellaneous	122,375	210,700	(88,325)
Total revenues	3,133,356	3,214,048	(80,692)
Expenses:			
Business type activities	3,138,854	3,213,244	(74,390)
Increase (decrease) in net assets	(5,498)	804	(6,302)
Net assets beginning of year	12,887,108	1,834,422	11,052,686
Net assets end of year	\$ 12,881,610	1,835,226	11,046,384

MARSHALLTOWN WATER WORKS

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2009

In accordance with the Code of Iowa, the Water Works' Board of Trustees 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.

There were no budget amendments for the Water Works during fiscal 2009.

During the year ended June 30, 2009, expenditures did not exceed the amounts budgeted.

MARSHALLTOWN WATER WORKS

Schedule of Funding Progress for the Retiree Health Plan Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	-	\$ 95,737	\$ 95,737	0.0%	\$ 822,816	11.6%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

MARSHALLTOWN WATER WORKS

Schedules of Net Assets Detail June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	888,348	192,776	695,572
Water deposits	46,435	44,995	1,440
Less: sinking fund allocation	(18,108)	-	(18,108)
	<u>917,305</u>	<u>238,401</u>	<u>678,904</u>
Cash held for city:			
Sewer deposit fund	62,965	60,991	1,974
Sewer cash	224,989	203,326	21,663
Storm sewer cash	26,441	25,128	1,313
Landfill cash	12,862	11,941	921
Total cash held for city	<u>327,257</u>	<u>301,386</u>	<u>25,871</u>
Total cash	<u>\$ 1,244,562</u>	<u>539,787</u>	<u>704,775</u>
Capital assets:			
Land	\$ 1,113,721	1,113,721	-
Plant and source of supply	9,183,691	9,072,904	110,787
Accumulated depreciation - plant	(6,246,187)	(5,884,580)	(361,607)
Distribution system and pipe	9,238,623	8,628,884	609,739
Accumulated depreciation - distribution	(2,728,313)	(2,634,054)	(94,259)
Booster station	161,071	161,072	(1)
Accumulated depreciation-booster station	(62,909)	(60,230)	(2,679)
Meters	1,289,503	1,279,958	9,545
Accumulated depreciation - meters	(908,967)	(875,192)	(33,775)
Machinery and equipment	435,172	432,302	2,870
Accumulated depreciation - machinery and equipment	(342,934)	(319,725)	(23,209)
Vehicles	241,167	231,923	9,244
Accumulated depreciation - vehicles	(196,311)	(204,780)	8,469
Capital improvements	54,650	54,650	-
Accumulated depreciation - capital improvements	(20,967)	(19,486)	(1,481)
Capital improvements - buildings	501,223	448,576	52,647
Accumulated depreciation - buildings	(264,880)	(252,215)	(12,665)
Office equipment and furnishings	410,509	393,355	17,154
Accumulated depreciation - office equipment and furnishings	<u>(363,333)</u>	<u>(337,999)</u>	<u>(25,334)</u>
Net capital assets	<u>\$ 11,494,529</u>	<u>11,229,084</u>	<u>265,445</u>

MARSHALLTOWN WATER WORKS

Schedules of Net Assets Detail (Continued)

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 60,853	63,300	(2,447)
Prepaid computer maintenance	13,505	12,861	644
Prepaid billing supplies	4,610	4,689	(79)
	<u>78,968</u>	<u>80,850</u>	<u>(1,882)</u>
Total prepaid expenses			
Other receivables:			
Miscellaneous accounts receivable billings	\$ 37,494	22,111	15,383
Interest receivable	3,098	11,643	(8,545)
Contract receivables	509	509	-
	<u>41,101</u>	<u>34,263</u>	<u>6,838</u>
Total other receivables			
Accrued liabilities:			
Accrued sales tax	\$ 8,005	6,506	1,499
Accrued F.I.C.A.	1,891	1,754	137
Accrued payroll	24,725	22,930	1,795
Accrued pension	876	894	(18)
Accrued vacation	91,620	75,136	16,484
Accrued retirement expense	781	585	196
Insurance deductible	(4,758)	(378)	(4,380)
	<u>123,140</u>	<u>107,427</u>	<u>15,713</u>
Total accrued liabilities			

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ 334,760	316,726	18,034
Employee benefits:			
Health insurance	33,480	37,902	(4,422)
Pension	40,920	19,982	20,938
Social security	24,896	23,269	1,627
Life insurance	1,205	1,211	(6)
Mileage	1,220	498	722
Registration	1,225	1,280	(55)
Lodging	708	682	26
Safety clothing	420	677	(257)
Safety training	2,496	2,021	475
Dues	84	30	54
Food	168	6	162
Travel	20	10	10
Medical	356	24	332
	<u>107,198</u>	<u>87,592</u>	<u>19,606</u>
Utilities:			
Electric	210,517	228,650	(18,133)
Gas	19,697	22,002	(2,305)
Internet	219	219	-
Telephone	1,163	1,369	(206)
	<u>231,596</u>	<u>252,240</u>	<u>(20,644)</u>
Depreciation:			
Plant depreciation	<u>362,762</u>	<u>361,989</u>	<u>773</u>
Fuels:			
Gas	1,112	1,414	(302)
Oil	107	6	101
Diesel fuel	2,624	1,049	1,575
	<u>3,843</u>	<u>2,469</u>	<u>1,374</u>
Supplies:			
Lab supplies	18,852	15,327	3,525
Plant supplies	166	82	84
Building supplies	173	749	(576)
Well supplies	586	477	109

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Supplies (continued):			
Cleaning supplies	992	589	403
General supplies	1,139	727	412
Health and first aid	257	191	66
Operational fees and permits	-	160	(160)
Safety equipment	56	155	(99)
	<u>22,221</u>	<u>18,457</u>	<u>3,764</u>
Maintenance:			
Building maintenance	1,958	3,766	(1,808)
Machinery maintenance	9,313	12,032	(2,719)
Computer maintenance	713	1,033	(320)
Grounds maintenance	1,258	2,448	(1,190)
Well field maintenance	5,405	5,130	275
Heating and air maintenance	-	174	(174)
Safety equipment maintenance	143	458	(315)
Vehicle maintenance	195	33	162
	<u>18,985</u>	<u>25,074</u>	<u>(6,089)</u>
Chemicals:			
Pebble-lime	248,911	230,798	18,113
CO2	15,466	17,816	(2,350)
CL2	59,029	26,407	32,622
Fluoride	22,259	15,971	6,288
Poly-phosphate	18,747	15,348	3,399
Polymer	58,088	-	58,088
Lime sludge removal	254,063	254,127	(64)
Sodium chlorite	22,772	5,652	17,120
	<u>699,335</u>	<u>566,119</u>	<u>133,216</u>
Contract services:			
Rentals	-	95	(95)
Lab services	6,141	9,254	(3,113)
	<u>6,141</u>	<u>9,349</u>	<u>(3,208)</u>
Total treatment plant	<u>\$ 1,786,841</u>	<u>1,640,015</u>	<u>146,826</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ 225,850	234,437	(8,587)
Employee benefits:			
Health insurance	22,439	28,696	(6,257)
Pension	26,796	14,772	12,024
Social security	17,063	17,649	(586)
Life insurance	1,076	842	234
Registration	-	390	(390)
Mileage	28	-	28
Dues	220	-	220
Food	52	46	6
Lodging	222	222	-
Medical	27	-	27
Safety clothing	1,328	1,339	(11)
Safety training	2,496	2,021	475
	<u>71,747</u>	<u>65,977</u>	<u>5,770</u>
Depreciation:			
Distribution depreciation	94,259	88,936	5,323
Booster station depreciation	2,679	2,681	(2)
Vehicle depreciation	1,472	1,374	98
Equipment depreciation	23,208	23,344	(136)
	<u>121,618</u>	<u>116,335</u>	<u>5,283</u>
Fuels:			
Gas	3,203	4,518	(1,315)
Oil	832	576	256
Grease	51	69	(18)
Diesel fuel	4,501	6,312	(1,811)
LP gas	-	15	(15)
	<u>8,587</u>	<u>11,490</u>	<u>(2,903)</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	6,477	2,540	3,937
Shop supplies	1,962	1,138	824
Leak repair supplies	46,698	42,192	4,506
Hydrant and valve supplies	2,087	2,520	(433)
Booster station supplies	141	49	92
Health and first aid supplies	-	21	(21)
Safety equipment	-	405	(405)
Data processing supplies	39	290	(251)
	<u>57,404</u>	<u>49,155</u>	<u>8,249</u>
Maintenance:			
Vehicle maintenance	1,476	3,067	(1,591)
Equipment maintenance	8,380	4,028	4,352
Computer maintenance	765	775	(10)
Safety equipment maintenance	175	-	175
Tower maintenance	-	186	(186)
Well field maintenance	4,912	6,314	(1,402)
Booster station maintenance	2,658	-	2,658
	<u>18,366</u>	<u>14,370</u>	<u>3,996</u>
 Total construction and maintenance	<u>\$ 503,572</u>	<u>491,764</u>	<u>11,808</u>

MARSHALLTOWN WATER WORKS

Schedules of Customer Service and Meter Expenses For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ 111,245	102,975	8,270
Employee benefits:			
Health insurance	21,330	20,551	779
Pension	10,940	6,434	4,506
Social security	7,930	7,416	514
Life insurance	454	454	-
Dues	350	-	350
Safety clothing	493	1,151	(658)
Safety training	2,496	2,021	475
Medical	88	76	12
	<u>44,081</u>	<u>38,103</u>	<u>5,978</u>
Depreciation:			
Vehicle depreciation	15,729	15,881	(152)
Meter depreciation	33,774	36,053	(2,279)
	<u>49,503</u>	<u>51,934</u>	<u>(2,431)</u>
Fuels:			
Gas	4,141	5,144	(1,003)
Oil	67	54	13
LP gas	34	-	34
	<u>4,242</u>	<u>5,198</u>	<u>(956)</u>
Maintenance:			
Vehicle maintenance	2,008	(904)	2,912
Equipment maintenance	1,020	2	1,018
Safety equipment maintenance	57	-	57
	<u>3,085</u>	<u>(902)</u>	<u>3,987</u>
Supplies:			
General supplies	3,928	3,188	740
Meter repair supplies	1,084	934	150
Shop supplies	166	211	(45)
Service repair supplies	102	240	(138)
	<u>5,280</u>	<u>4,573</u>	<u>707</u>
Total customer service and meter	\$ <u>217,436</u>	<u>201,881</u>	<u>15,555</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ 295,885	261,294	34,591
Employee benefits:			
Health insurance	11,208	14,209	(3,001)
Pension	38,540	17,401	21,139
Social security	20,606	19,393	1,213
Life insurance	1,143	1,151	(8)
Mileage	3,764	3,678	86
Registration fees	1,075	285	790
Dues and subscriptions	5,152	4,521	631
Lodging	2,304	516	1,788
Food	622	877	(255)
	<u>84,414</u>	<u>62,031</u>	<u>22,383</u>
Utilities:			
Electricity	7,944	7,556	388
Gas	5,057	5,846	(789)
Internet expense	219	219	-
Telephone	5,048	5,995	(947)
	<u>18,268</u>	<u>19,616</u>	<u>(1,348)</u>
Depreciation:			
Building depreciation	12,665	13,344	(679)
Capital improvement depreciation	1,481	1,481	-
Equipment depreciation	25,334	27,029	(1,695)
	<u>39,480</u>	<u>41,854</u>	<u>(2,374)</u>
General supplies:			
Office supplies	2,984	5,199	(2,215)
Data processing supplies	(1,292)	1,647	(2,939)
General supplies	4,212	3,236	976
Administrative supplies	957	300	657
Building supplies	-	122	(122)
Cleaning supplies	166	2	164
Operational fees and permits	6,093	4,439	1,654
Health and first aid	671	849	(178)
	<u>13,791</u>	<u>15,794</u>	<u>(2,003)</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	1,273	20,389	(19,116)
Office machine maintenance	5,161	5,777	(616)
Grounds maintenance	566	-	566
Building maintenance	1,365	8,916	(7,551)
	<u>8,365</u>	<u>35,082</u>	<u>(26,717)</u>
Administrative expenses:			
Insurance	82,533	74,496	8,037
Bad debt expense	-	(32)	32
Banking services	1,650	3,271	(1,621)
Legal services	16,561	8,449	8,112
Cleaning services	5,350	5,715	(365)
Accounting services	17,915	6,900	11,015
Postage	22,656	20,066	2,590
Public notices	6,841	2,927	3,914
Contract services	1,476	1,311	165
Engineering services	15,734	2,723	13,011
Computer programming	86	-	86
	<u>170,802</u>	<u>125,826</u>	<u>44,976</u>
Total administrative expenses	<u>\$ 631,005</u>	<u>561,497</u>	<u>69,508</u>
Non-operating expenses:			
Interest expense	\$ 2,000	14,600	(12,600)
Board compensation	1,125	675	450
Merchandise for resale	-	887	(887)
Miscellaneous	92	-	92
Economic development	8,000	8,000	-
	<u>11,217</u>	<u>24,162</u>	<u>(12,945)</u>
Total non-operating expenses	<u>\$ 11,217</u>	<u>24,162</u>	<u>(12,945)</u>

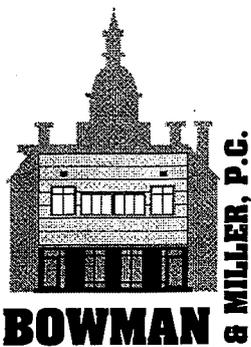
MARSHALLTOWN WATER WORKS

Schedules of Indebtedness For the Year Ended June 30, 2009

	<u>Revenue Note</u>
Date of issue	April 15, 2009
Interest rate	3.25%
Original amount	\$ <u>1,025,000</u>
Balance, beginning of year	\$ -
Issued during year	1,025,000
Redeemed during year	<u>-</u>
Balance, end of year	\$ <u>1,025,000</u>
Current portion (due in one year)	\$ <u>180,000</u>

For the Year Ended June 30, 2008

	<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	\$ 365,000
Issued during year	-
Redeemed during year	<u>365,000</u>
Balance, end of year	\$ <u>-</u>
Current portion (due in one year)	\$ <u>-</u>



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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, 2009 and 2008, and have issued our report thereon dated October 15, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Marshalltown Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marshalltown Water Works' 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.

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 the Marshalltown Water Works' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Marshalltown Water Works' financial statements that is more than inconsequential will not be prevented or detected by the Marshalltown Water Works' 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 Water Works' operations for the years ended June 30, 2009 and 2008 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.

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
October 5, 2009

MARSHALLTOWN WATER WORKS

Schedule of Findings Years Ended June 30, 2009 and 2008

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:

- 09-II-A Certified Budget - Expenditures during the years ended June 30, 2009 and 2008, did not exceed the amounts budgeted.
- 09-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.
- 09-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.
- 09-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 09-II-E Bond Coverage - Surety 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.
- 09-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 09-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.
- 09-II-H Revenue Note - The Water Works has established the sinking and reserve accounts required by the water revenue note resolution.

MARSHALLTOWN WATER WORKS

Audit Staff

This report was prepared by:

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

Personnel:

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