

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA**

Independent Auditors' Reports
Basic Financial Statements
and Supplemental Information
Schedule of Findings

June 30, 2010

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

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MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Board of Trustees and Officials
June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
(Before October, 2009)		
David Carrick	Chairman of the Board	October, 2009
David George	Board Member	October, 2013
Bobby Stull	Board Member	October, 2013
Dan McCabe	Board Member	October, 2011
Harvey Ungerman	Board Member	October, 2009
Lori A. Glanzman	General Manager	Indefinite
Randall Neff	Treasurer/Business Manager	Indefinite
David McCoid	Attorney	Indefinite
(After October, 2009)		
Dan McCabe	Chairman of the Board	October, 2011
David George	Board Member	October, 2013
Bobby Stull	Board Member	October, 2013
Harvey Ungerman	Board Member	October, 2015
Carol Nemitz	Board Member	October, 2015
Lori A. Glanzman	General Manager	Indefinite
Randall Neff	Treasurer/Business Manager	Indefinite
David McCoid	Attorney	Indefinite



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Pella
Sigourney

Independent Auditors' Report

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the accompanying Combining Statement of Net Assets of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2010, and the related Combining Statement of Revenue, Expenses and Changes in Fund Net Assets, and Combining Statement of Cash Flows. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As explained in Note 2 of the Notes to Financial Statements, property and equipment acquired prior to November 1, 1973 is accounted for and is being depreciated for periods since that date on appraisal values representing fair value as of that date. No depreciation has been recognized for periods prior to November 1, 1973. As explained in Note 3 of the Notes to Financial Statements, balances represented by contributed capital, net assets and appraisal increase are accounted for in total rather than being separated into its component parts. These practices, the effect of which is not determinable because municipal property and equipment cost records and equity records are not available, are not in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of appraisal values of equipment and net assets breakdown as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2010, and the respective changes in financial position and cash flows for the year 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 12, 2010 on our consideration of the Mt. Pleasant Municipal Utilities' – a component unit of the City of Mt. Pleasant, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 25 through 27 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 aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2009 (none of which are present herein) and expressed qualified opinions on those financial statements. The other supplemental information included in pages 28 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information on pages 29 through 38 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 28 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

TDE&T Financial Group, P.C.

Mt. Pleasant, Iowa
October 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant 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, 2010. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 4.6%, or approximately \$412,600, from 2009 to 2010.
- Operating expenses increased 6.4%, or approximately \$561,300, from fiscal year 2009 to fiscal year 2010.
- Mt. Pleasant Utilities' net assets decreased 1.0%, or approximately \$159,000, from June 30, 2009 to June 30, 2010.

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 Financial Statements consist of a Combining Statement of Net Assets, a Combining Statement of Revenue, Expenses and Changes in Fund Net Assets and a Combining Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Utilities as a whole and present an overall view of the Utilities' finances.

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 unaudited comparative operating statistics as well as additional detail for the Combining Statement of Net Assets, Combining Statement of Revenue, Expenses and Changes in Fund Net Assets and note maturities.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Combining Statement of Net Assets and the Combining Statement of Revenue, Expenses and Changes in Fund Net Assets

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and the Combining Statement of Revenue, Expenses and Changes in Fund Net Assets report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

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

The Combining Statement of Revenue, Expenses and Changes in Fund Net Assets presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Combining Statement of Net Assets and the Combining Statement of Revenue, Expenses and Changes in Fund Net Assets report one kind of activity:

- Business type activities, which include the water and the electric funds. These activities are financed primarily by user charges.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

	Net Assets June 30,	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 6,275,631	6,305,496
Capital assets	<u>18,027,285</u>	<u>18,742,318</u>
Total assets	\$ <u>24,302,916</u>	<u>25,047,814</u>
Long-term liabilities	\$ 6,310,521	7,006,993
Other liabilities	<u>2,444,455</u>	<u>2,333,919</u>
Total liabilities	\$ <u>8,754,976</u>	<u>9,340,912</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 11,443,513	11,472,359
Restricted	770,578	779,648
Unrestricted	<u>3,333,849</u>	<u>3,454,895</u>
Total net assets	\$ <u>15,547,940</u>	<u>15,706,902</u>

Net assets of business type activities decreased from fiscal year 2009 by approximately \$159,000, or 1.0%. The largest portion of the Utilities' net assets is the Invested in Capital Assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$3,334,000 at the end of this year.

Changes in Net Assets
Year Ended June 30,

	2010	2009
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 9,424,478	9,011,925
Non-operating revenues:		
Investment earnings	27,322	66,152
Other non-operating revenue	24,293	13,853
Total revenues	9,476,093	9,091,930
Operating expenses:		
Power, pumping and treatment plant	6,662,335	6,299,723
Transmission and distribution	1,370,405	1,271,223
General and administration	1,251,648	1,152,101
Non-operating expenses:		
Interest expense	247,346	327,540
Other non-operating expense	3,321	3,094
Total expenses	9,535,055	9,053,681
Increase (decrease) in net assets	(58,962)	38,249
Net assets beginning of year	15,706,902	15,768,653
Permanent transfer to City of Mt. Pleasant	(100,000)	(100,000)
Net assets end of year	\$ 15,547,940	15,706,902

Revenues for business type activities increased by approximately \$384,000 over the prior year while total expenses were approximately \$481,000 higher than the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2010 with a \$6,117,681 net asset balance compared to the prior year ending net asset balance of \$5,989,643.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2010 with a \$9,430,259 net asset balance compared to the prior year ending net asset balance of \$9,717,259.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Utilities amended its budget one time. The amendment was done in June of 2010. The amendment was done to decrease budgeted disbursements to make it more consistent with the actual disbursements for the year.

The Utilities' receipts were \$51,003 less than budgeted, a variance of 0.5% and their total disbursements were \$380,286 less than budgeted, a variance of 3.9%.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include buildings, improvements and equipment. Capital assets totaled \$18,027,285 (net of accumulated depreciation) at June 30, 2010. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2010 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

Long-Term Debt

At June 30, 2010, long-term debt outstanding was \$6,556,521. Debt decreased as a result of payment of revenue notes.

Additional information about the Utilities' long-term debt is presented in Note 15 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2011 budget.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Mt. Pleasant Utilities' finances and operating activities. If you have any questions or require additional financial information, please contact the General Manager, 509 N. Adams; Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Assets
June 30, 2010

	<u>Assets</u>		
	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 1,912,149	-	1,912,149
Certificates of deposit	692,000	600,000	1,292,000
Receivables:			
Customer	459,964	124,752	584,716
Unbilled usage	464,036	104,897	568,933
Due from water account	125,703	-	125,703
Accrued interest	707	82	789
Material and supplies inventory	370,601	106,657	477,258
Prepaid expenses	80,239	65,268	145,507
Total current assets	<u>4,105,399</u>	<u>1,001,656</u>	<u>5,107,055</u>
Restricted assets:			
Cash	216,641	591,417	808,058
Certificates of deposit	360,000	-	360,000
Accrued interest receivable	518	-	518
Total restricted assets	<u>577,159</u>	<u>591,417</u>	<u>1,168,576</u>
Total current and restricted assets	<u>4,682,558</u>	<u>1,593,073</u>	<u>6,275,631</u>
Property and equipment:			
Acquired prior to November 1, 1973, at appraised value	3,099,450	1,584,695	4,684,145
Less: depreciation accumulated since November 1, 1973, computed by the straight-line method	<u>3,099,450</u>	<u>1,508,467</u>	<u>4,607,917</u>
	<u>-</u>	<u>76,228</u>	<u>76,228</u>
Acquired since November 1, 1973, at cost	20,026,369	15,355,770	35,382,139
Less: accumulated depreciation, computed by the straight-line method	<u>11,073,978</u>	<u>6,357,104</u>	<u>17,431,082</u>
	<u>8,952,391</u>	<u>8,998,666</u>	<u>17,951,057</u>
Total property and equipment	<u>8,952,391</u>	<u>9,074,894</u>	<u>18,027,285</u>
Total assets	<u>\$ 13,634,949</u>	<u>10,667,967</u>	<u>24,302,916</u>

See accompanying notes to financial statements.

Liabilities and Net Assets

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current liabilities, payable from current assets:			
Accounts payable and accrued expenses	\$ 980,557	109,546	1,090,103
Checks in excess of cash	-	830,347	830,347
Due to light account	-	125,703	125,703
Total current liabilities, payable from current assets	<u>980,557</u>	<u>1,065,596</u>	<u>2,046,153</u>
Long-term liabilities:			
Notes payable	<u>3,007,188</u>	<u>3,303,333</u>	<u>6,310,521</u>
Total long-term liabilities	<u>3,007,188</u>	<u>3,303,333</u>	<u>6,310,521</u>
Current liabilities, payable from restricted assets:			
Customer deposits	125,051	-	125,051
Accrued interest	18,561	8,690	27,251
Notes payable	<u>73,333</u>	<u>172,667</u>	<u>246,000</u>
Total current liabilities, payable from restricted assets	<u>216,945</u>	<u>181,357</u>	<u>398,302</u>
Total liabilities	<u>4,204,690</u>	<u>4,550,286</u>	<u>8,754,976</u>
Net assets:			
Invested in capital assets, net of related debt	5,853,309	5,590,204	11,443,513
Restricted for:			
Reserve account	360,518	410,060	770,578
Unrestricted	<u>3,216,432</u>	<u>117,417</u>	<u>3,333,849</u>
Total net assets	<u>9,430,259</u>	<u>6,117,681</u>	<u>15,547,940</u>
 Total liabilities and net assets	 \$ <u><u>13,634,949</u></u>	 <u><u>10,667,967</u></u>	 <u><u>24,302,916</u></u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

**Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Year Ended June 30, 2010**

	Electric	Water	Total
Operating revenue:			
Metered sales	\$ 7,591,804	1,694,335	9,286,139
Other sales	39,758	-	39,758
Other revenue	23,545	12,685	36,230
Cut-off notice fee	6,648	1,559	8,207
Sewer and solid waste service fee	14,580	3,420	18,000
Penalty charges and bad debt recoveries	29,277	6,867	36,144
Total operating revenue	7,705,612	1,718,866	9,424,478
Operating expenses:			
Power, pumping and treatment plant	5,897,968	764,367	6,662,335
Transmission and distribution	750,702	619,703	1,370,405
General and administration	1,013,835	237,813	1,251,648
Total operating expenses	7,662,505	1,621,883	9,284,388
Net operating income	43,107	96,983	140,090
Non-operating revenue:			
Interest income	6,442	3,273	9,715
Interest income - restricted	14,331	3,276	17,607
Gain on sale of assets	1,532	22,761	24,293
Total other revenue	22,305	29,310	51,615
Non-operating expenses:			
Utility replacement tax	365	-	365
Interest expense - restricted	121,972	125,374	247,346
Miscellaneous contracted services - restricted	675	-	675
Banking fees - restricted	400	1,881	2,281
Total other expenses	123,412	127,255	250,667
Change in net assets	(58,000)	(962)	(58,962)
Net assets beginning of year	9,717,259	5,989,643	15,706,902
Residual equity transfer	(129,000)	129,000	-
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Net assets end of year	\$ 9,430,259	6,117,681	15,547,940

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows
Year Ended June 30, 2010

	Electric	Water	Total
Cash flow from operating activities:			
Cash received from customers and users	\$ 7,496,105	1,715,686	9,211,791
Cash received from other revenues	1,532	40,519	42,051
Cash paid to employees for services	(987,426)	(687,127)	(1,674,553)
Cash paid to suppliers	(5,941,242)	(537,955)	(6,479,197)
Net cash provided (used) by operating activities	568,969	531,123	1,100,092
Cash flow from noncapital financing activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Residual equity transfer	(129,000)	129,000	-
Net cash provided (used) by noncapital financing activities	(229,000)	129,000	(100,000)
Cash flow from capital and related financing activities:			
Principal paid on notes payable	(425,000)	(286,000)	(711,000)
Interest paid on notes payable	(117,645)	(127,750)	(245,395)
Cash paid for utility replacement tax	(365)	-	(365)
Cash paid for banking fees on notes payable	(1,075)	(1,881)	(2,956)
Purchase of property and equipment	(56,501)	(292,882)	(349,383)
Proceeds from sale of property and equipment	1,532	40,521	42,053
Net cash provided (used) by capital activities	(599,054)	(667,992)	(1,267,046)
Cash flow from investing activities:			
Proceeds from sale of investments	44,803	-	44,803
Interest on investments	22,018	6,538	28,556
Net cash provided (used) by investing activities	66,821	6,538	73,359
Net change in cash	(192,264)	(1,331)	(193,595)
Cash and cash equivalents at beginning of year	2,321,054	592,748	2,913,802
Cash and cash equivalents at end of year	\$ 2,128,790	591,417	2,720,207

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2010

	Electric	Water	Total
Cash flow from operating activities:			
Operating income	\$ 43,107	96,983	140,090
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	632,226	414,433	1,046,659
Bond premium and issuance cost amortization	22,862	-	22,862
Changes in assets and liabilities:			
(Increase) decrease in due from other accounts	(6,456)	6,456	-
(Increase) decrease in accounts receivable	(140,849)	(6,469)	(147,318)
(Increase) decrease in unbilled usage	(74,656)	3,289	(71,367)
(Increase) decrease in inventories	72	20,724	20,796
(Increase) decrease in prepaid expense	(230)	(5,194)	(5,424)
Increase (decrease) in customer deposits	5,997	-	5,997
Increase (decrease) in accounts payable and accrued expenses	86,896	42,488	129,384
Increase (decrease) in checks in excess of cash	-	(41,587)	(41,587)
Net cash provided (used) by operating activities	568,969	531,123	1,100,092
Cash flow from noncapital financing activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Residual equity transfer	(129,000)	129,000	-
Net cash provided (used) by noncapital financing activities	(229,000)	129,000	(100,000)

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2010

	Electric	Water	Total
Cash flow from capital and related financing activities:			
Principal paid on notes payable	(425,000)	(286,000)	(711,000)
Interest paid on notes payable	(117,645)	(127,750)	(245,395)
Cash paid for utility replacement tax	(365)	-	(365)
Cash paid for banking fees on notes payable	(1,075)	(1,881)	(2,956)
Purchase of property and equipment	(56,501)	(292,882)	(349,383)
Proceeds from sale of property and equipment	1,532	40,521	42,053
Net cash provided (used) by capital activities	(599,054)	(667,992)	(1,267,046)
Cash flow from investing activities:			
Proceeds from sale of investments	44,803	-	44,803
Interest on investments	22,018	6,538	28,556
Net cash provided (used) by investing activities	66,821	6,538	73,359
Net change in cash	(192,264)	(1,331)	(193,595)
Cash and cash equivalents at beginning of year	2,321,054	592,748	2,913,802
Cash and cash equivalents at end of year	\$ 2,128,790	591,417	2,720,207
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 1,912,149	-	1,912,149
Restricted assets:			
Customer deposits	125,051	-	125,051
Notes payable retirement	91,590	181,357	272,947
Water reserve	-	410,060	410,060
Total cash and cash equivalents at end of year	\$ 2,128,790	591,417	2,720,207

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements
June 30, 2010

Note 1 – Significant Accounting Policies

Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry and other entities in Mt. Pleasant and surrounding areas.

The financial statements of Mt. Pleasant Municipal Utilities are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The 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 Utilities are such that exclusion would cause the 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 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.

These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council.

Basis of Presentation

The accounts of Mt. Pleasant Municipal Utilities are organized on the basis of enterprise funds. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. Mt. Pleasant Municipal Utilities reports the following major enterprise funds:

The Electric Fund is used to account for the operation and maintenance of the electric system.

The Water Fund is used to account for the operation and maintenance of the water system.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 1 – Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary funds of the Utilities apply 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash Equivalents

For purposes of the Combining Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts and Unbilled Usage

Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories

Inventories are valued at the lower of average cost or market. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 1 – Significant Accounting Policies (Continued)

Restricted Assets

Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Fund Net Assets are allocated 81% and 19% to the Electric and Water Funds, respectively.

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amount budgeted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through October 12, 2010, the date which the statements were available to be issued.

Note 2 – Property and Equipment Accounting Policies

Vanguard Appraisals, Inc., an appraisal company, inspected the property and equipment of the Electric and Water Funds and computed the appraised value based on market conditions as of November 1, 1973. Property and equipment acquired prior to November 1, 1973 is being accounted for on the basis of those appraised values. The appraised value of the depreciable property and equipment is being depreciated by the straight-line method over its estimated remaining useful life on November 1, 1973.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 2 – Property and Equipment Accounting Policies (Continued)

Complete property and equipment cost records are not available, making it impossible to determine the effect of the use of appraised values on the presentation of financial position and results of operations.

Accounting for property and equipment on the basis of appraised values is not in accordance with accounting principles generally accepted in the United States of America.

Property and equipment acquired subsequent to November 1, 1973, is recorded at historical cost. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	25,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-40
Improvements other than buildings	15
Vehicles	7-8
Equipment	5-30
Infrastructure	30-40

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 2 – Property and Equipment Accounting Policies (Continued)

Detail of property and equipment at June 30, 2010 by category is as follows:

At Appraised Value	Electric Fund	Water Fund
Buildings	\$ 598,000	146,000
Production equipment	1,653,400	504,300
Distribution equipment	809,400	917,200
Machinery and equipment	30,250	12,995
Office furniture and fixtures	8,400	4,200
Total	\$ 3,099,450	1,584,695
At Cost	Electric Fund	Water Fund
Land	\$ -	131,975
Land improvements	41,003	-
Edr treatment plant	-	6,149,810
Buildings	374,201	1,275,435
Production equipment	9,868,455	800,794
Distribution system	7,150,920	3,847,334
Water tower	-	1,438,281
Machinery and equipment	768,341	756,178
Transportation equipment	150,727	-
Office furniture and fixtures	171,435	79,644
Consultant services	1,128,158	876,319
Steam supply line	42,667	-
Computer	307,759	-
Leasehold improvements	22,703	-
Total	\$ 20,026,369	15,355,770

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 4 regarding electricity, water and related services furnished to the City without charge.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 3 – Contributed Capital, Net Assets and Appraisal Increase

Available accounting records are not adequate to make it possible to separately identify and account for contributed capital, net assets and the appraisal increase of property and equipment. As a result, these separate elements of the net assets of the Electric and Water Funds are grouped for financial statement presentation. The combined presentation of these components of net assets is not in accordance with accounting principles generally accepted in the United States of America.

Note 4 – Donated Electricity and Water

The municipal parks, city hall and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2010, services donated to the City totaled \$195,139 and \$14,479 for the Electric and Water Funds, respectively. No revenue has been recognized in the financial statements for these amounts.

Note 5 – Cash and Pooled Investments

The Municipal Utilities' deposits at June 30, 2010 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 Municipal 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 Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Municipal Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 6 – 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.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 6 – Pension and Retirement Benefits (Continued)

Plan members are required to contribute 4.30% of their annual covered salary and the Utilities is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$112,356, \$104,195 and \$96,997 respectively, equal to the required contributions for each year.

Note 7 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$5,042,525 which represents 99.5% of total kilowatt hours generated and purchased.

Note 8 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2010. This amount based on June 30, 2010 wages and salaries was \$132,222.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement at age 62 or older, or upon death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The liability for employee sick leave is reported in the combining statement of net assets only for employees who have retired. As of June 30, 2010, there was no liability for sick leave accrued.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2010 is approximately \$234,236.

Note 9 – Certified Budget

During the year ended June 30, 2010, disbursements did not exceed the amount budgeted.

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)
June 30, 2010**

Note 10 – Cash Flow Information

Cash paid for interest and taxes for the year ended June 30, 2010 was as follows:

Interest	\$ 245,396
Taxes	-

Note 11 – Accounts Receivable

The Utilities supplies electric and water services to businesses and residents of Mt. Pleasant and surrounding areas. The Utilities grants credit to these customers.

Note 12 – Unrestricted Net Assets Designated by the Board

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. As of June 30, 2010 the amounts that are board designated are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Designated Net Assets</u>
Electric Fund	Light Improvement	\$ 633,681
Water Fund	Water Improvement	351,987
Electric Fund	Light Contingency	<u>616,485</u>
Total board designated cash and investments		\$ <u>1,602,153</u>

Note 13 – Allowance for Doubtful Accounts

As of June 30, 2010, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,050 and \$950, respectively.

Note 14 – Risk Management

The 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 coverage. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three years.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 15 – Notes Payable

Annual debt service requirements to maturity for revenue notes per the resolution are as follows:

Year Ending June 30,	Water Revenue Notes				Electric Revenue Notes		
	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 296,000	99,840	1,738	397,578	440,000	109,538	549,538
2012	306,000	90,810	1,590	398,400	455,000	94,357	549,357
2013	317,000	81,465	1,437	399,902	475,000	78,660	553,660
2014	328,000	71,790	1,279	401,069	490,000	62,273	552,273
2015	340,000	61,770	1,115	402,885	505,000	45,367	550,367
2016	352,000	51,390	945	404,335	500,000	27,945	527,945
2017	365,000	40,635	769	406,404	310,000	10,695	320,695
2018	377,000	29,505	586	407,091	-	-	-
2019	391,000	17,985	397	409,382	-	-	-
2020	<u>404,000</u>	<u>6,060</u>	<u>201</u>	<u>410,261</u>	-	-	-
	<u>\$ 3,476,000</u>	<u>551,250</u>	<u>10,057</u>	<u>4,037,307</u>	<u>3,175,000</u>	<u>428,835</u>	<u>3,603,835</u>

The resolution providing for a loan agreement between the Mt. Pleasant Utilities and the Department of Natural Resources, and securing the payment of \$5,934,000 Water Revenue Capital Loan Notes, Series 1999 include the following provisions:

All revenues were deposited in a water revenue account. From the water revenue account, transfers may be made to the following accounts:

1. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into a water sinking account.
2. Monthly transfers equal to a reserve account requirement which is 25% of the amount to be deposited in the water sinking account, to be deposited into a water reserve account.

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)
June 30, 2010**

Note 15 – Notes Payable (Continued)

The Utilities issued electric revenue bonds in an aggregate principal amount of \$3,600,000 dated May 20, 2009 for the purpose of paying costs of the refunding of the outstanding electric revenue bonds dated May 1, 2001. Bond issuance costs were capitalized and netted with bond premium. The unamortized costs were \$98,273 at June 30, 2010. The unamortized premium was \$3,794 at June 30, 2010. The bonds are shown net of the unamortized costs and premium on the combining statement of net assets. The net unamortized costs and premium will be amortized over the life of the bonds.

All revenues were deposited in the electric revenue account. After reserving an adequate sum as working capital for the system, the following payments only shall be made:

1. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into an electric sinking account.
2. Monthly transfers equal to 100 percent of the amount required to be deposited in the electric sinking account; provided, however, that when the amount on deposit in the reserve account shall be not less than the reserve fund requirement, no further deposits shall be made into the reserve account except to maintain such level, and when the amount on deposit in the reserve account is greater than the balance required above, such additional amounts shall be withdrawn and paid into the electric revenue account. The reserve fund requirement is the lesser of the maximum annual amount of principal and interest coming due on the note, 10% of the stated principal of the note or 125% of the average annual principal and interest coming due on the note.

During the year ended June 30, 2010, the Utilities was in compliance with the revenue note provisions.

Note 16 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	<u>Water Revenue Notes</u>	<u>Electric Revenue Notes</u>	<u>Total</u>
Balance beginning of year	\$ 3,762,000	3,600,000	7,362,000
Decreases	<u>286,000</u>	<u>425,000</u>	<u>711,000</u>
Balance end of year	\$ <u>3,476,000</u>	<u>3,175,000</u>	<u>6,651,000</u>
Due within one year	\$ <u>296,000</u>	<u>440,000</u>	<u>736,000</u>

Note 17 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility employees, totaling \$4,543 during the year ended June 30, 2010.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2010

Note 18 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2010 was \$100,000.

Note 19 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Water fund	Electric fund	<u>\$129,000</u>

Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2010

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts	\$ 9,282,397	9,947,100	9,333,400	(51,003)
Disbursements	9,375,992	9,849,912	9,756,278	380,286
Net	(93,595)	97,188	(422,878)	329,283
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	2,913,802	4,053,420	2,913,802	-
Ending balances	\$ 2,720,207	4,050,608	2,390,924	329,283

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation
Required Supplementary Information
Year Ended June 30, 2010

	Proprietary Funds		
	Cash Basis	Enterprise	Accrual Basis
		Accrual Adjustments	
Revenues	\$ 9,282,397	193,696	9,476,093
Expenditures / expenses	9,375,992	159,063	9,535,055
Net	(93,595)	34,633	(58,962)
Other financing sources, net	(100,000)	-	(100,000)
Beginning net assets	2,913,802	12,793,100	15,706,902
Ending net assets	\$ 2,720,207	12,827,733	15,547,940

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2010

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

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund. One of the 9 functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment decreased budgeted disbursements by \$93,634. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Unaudited Comparative Operating Statistics

	Year Ended June 30,	
	2010	2009
Number of customers served:		
Electricity:		
Residential	3,192	3,166
Commercial	817	823
Electric heat	74	76
Vapor lights	116	120
Special commercial demand	30	30
Steam	1	1
Water	3,667	3,666
Kilowatt hours:		
Number of kilowatt hours purchased	77,027,608	79,467,625
Number of kilowatt hours produced	379,933	2,977,414
	77,407,541	82,445,039
Number of kilowatt hours sold	67,546,011	70,015,683
% of kilowatt hours sold to total produced and purchased	87.26%	84.92%
Number of kilowatt hours for export	161,778	70,643
Number of kilowatt hours for internal use	4,280,387	4,244,158
Number of kilowatt hours donated to city	2,955,426	3,006,871
	7,397,591	7,321,672
Gallons:		
Number of gallons pumped	598,517,000	571,562,000
Number of gallons billed	403,845,395	405,198,141
% of gallons billed to total pumped	67.47%	70.89%
Number of gallons for internal use	2,640,675	1,796,175
Number of gallons donated to city	2,376,125	2,751,678
	5,016,800	4,547,853

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not investigated by the auditor.

See accompanying independent auditors' report.

2008	2007	2006	2005	2004
3,193	3,107	3,119	3,118	3,150
789	746	707	669	601
85	187	193	197	198
125	122	121	122	121
30	32	32	32	34
1	1	1	1	1
3,653	3,584	3,557	3,523	3,496
82,403,813	79,037,450	80,655,959	74,581,647	73,019,962
9,697,764	4,567,281	92,474	1,098,036	4,319,998
92,101,577	83,604,731	80,748,433	75,679,683	77,339,960
73,696,416	71,165,343	70,901,276	66,625,233	64,220,459
80.02%	85.12%	87.81%	88.04%	83.04%
4,324,914	2,047,516	-	-	588,161
4,183,565	4,410,334	4,751,883	5,244,270	4,837,110
2,949,411	2,995,590	2,895,695	2,746,554	3,585,657
11,457,890	9,453,440	7,647,578	7,990,824	9,010,928
564,416,000	582,580,100	645,262,500	648,979,500	653,780,400
432,257,918	437,794,600	468,899,618	503,789,739	509,100,856
76.58%	75.15%	72.67%	77.63%	77.87%
1,918,675	1,923,224	1,598,851	1,692,676	2,574,280
2,792,643	3,598,129	3,159,043	3,327,028	3,254,534
4,711,318	5,521,353	4,757,894	5,019,704	5,828,814

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail
June 30, 2010

	Electric	Water	Total
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 690,606	52,820	743,426
Salaries and wages	140,479	56,726	197,205
Payroll and withholding taxes	54,433	-	54,433
Sales tax payable	4,533	-	4,533
Sewer and trash payable	90,506	-	90,506
 Total	 \$ 980,557	 109,546	 1,090,103

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2010

		Assets			
		Balance		Trades	Balance
		June 30,	Acquisitions	and	June 30,
		2009	(Eliminations)	(Adjustments)	2010
Property and equipment:					
Electric Fund:					
At appraisal values:					
Buildings	\$	598,000	-	-	598,000
Generating equipment		1,653,400	-	-	1,653,400
Distribution system		809,400	-	-	809,400
Machinery and equipment		30,250	-	-	30,250
Office furniture and fixtures		8,400	-	-	8,400
		3,099,450	-	-	3,099,450
Total					
At cost:					
Land improvement	\$	41,003	-	-	41,003
Buildings		362,552	11,649	-	374,201
Generating equipment		9,862,925	5,530	-	9,868,455
Distribution equipment		7,042,232	103,923	-	7,146,155
Construction in progress		92,888	4,765	(92,888)	4,765
Machinery and equipment		767,759	582	-	768,341
Transportation equipment		150,727	-	-	150,727
Office furniture and fixtures		165,494	5,941	-	171,435
Consultant services		1,128,158	-	-	1,128,158
Steam supply line		42,667	-	-	42,667
Computer		290,759	17,000	-	307,759
Leasehold improvements		22,703	-	-	22,703
		19,969,867	149,390	(92,888)	20,026,369
Total					

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

(continued)

See accompanying independent auditors' report.

Assets	Accumulated Depreciation				Depreciated Cost June 30, 2010
	Estimated Life In Years	Balance June 30, 2009	Acquisitions (Eliminations)	Trades and (Adjustments)	
30	\$ 598,000	-	-	598,000	-
30	1,653,400	-	-	1,653,400	-
30	809,400	-	-	809,400	-
8-10	30,250	-	-	30,250	-
5	8,400	-	-	8,400	-
	<u>\$ 3,099,450</u>	<u>-</u>	<u>-</u>	<u>3,099,450</u>	<u>-</u>
15	\$ 23,366	1,734	-	25,100	15,903
30	197,978	11,762	-	209,740	164,461
10-30	3,368,051	320,306	-	3,688,357	6,180,098
30	4,514,946	227,351	-	4,742,297	2,403,858
	-	-	-	-	4,765
8-10	606,213	42,151	-	648,364	119,977
5	150,727	-	-	150,727	-
5-10	158,751	3,542	-	162,293	9,142
5	1,125,874	766	-	1,126,640	1,518
10-30	42,216	354	-	42,570	97
3-8	230,926	24,261	-	255,187	52,572
5	22,703	-	-	22,703	-
	<u>\$ 10,441,751</u>	<u>632,227</u>	<u>-</u>	<u>11,073,978</u>	<u>8,952,391</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2010

		Assets			
		Balance		Trades	Balance
		June 30,	Acquisitions	and	June 30,
		2009	(Eliminations)	(Adjustments)	2010
Property and equipment:					
Water Fund:					
At appraisal values:					
Buildings	\$	146,000	-	-	146,000
Pumping and filtering equipment		504,300	-	-	504,300
Distribution system		917,200	-	-	917,200
Machinery and equipment		12,995	-	-	12,995
Office furniture and fixtures		4,200	-	-	4,200
		<u>1,584,695</u>	<u>-</u>	<u>-</u>	<u>1,584,695</u>
Total					
	\$	<u>1,584,695</u>	<u>-</u>	<u>-</u>	<u>1,584,695</u>
At cost:					
Buildings	\$	1,274,468	967	-	1,275,435
Edr treatment plant		6,149,810	-	-	6,149,810
Pumping and filtering equipment		750,637	50,157	-	800,794
Distribution system		3,797,009	42,745	-	3,839,754
Construction in progress		14,224	7,580	(14,224)	7,580
Water tower		1,338,931	99,350	-	1,438,281
Machinery and equipment		693,360	98,335	(35,517)	756,178
Land		131,975	-	-	131,975
Consultant services		873,714	2,605	-	876,319
Furniture and fixtures		74,276	5,368	-	79,644
		<u>15,098,404</u>	<u>307,107</u>	<u>(49,741)</u>	<u>15,355,770</u>
Total					
	\$	<u>15,098,404</u>	<u>307,107</u>	<u>(49,741)</u>	<u>15,355,770</u>

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

See accompanying independent auditors' report.

Assets	Accumulated Depreciation				
Estimated Life In Years	Balance June 30, 2009	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2010	Depreciated Cost June 30, 2010
10-30	\$ 146,000	-	-	146,000	-
21-30	504,300	-	-	504,300	-
40	818,042	22,930	-	840,972	76,228
8-10	12,995	-	-	12,995	-
10	4,200	-	-	4,200	-
	\$ 1,485,537	22,930	-	1,508,467	76,228
10-30	\$ 777,319	28,075	-	805,394	470,041
40	1,556,179	153,745	-	1,709,924	4,439,886
25-40	285,671	26,377	-	312,048	488,746
40	1,400,483	96,147	-	1,496,630	2,343,124
	-	-	-	-	7,580
21-40	501,575	39,411	-	540,986	897,295
5-10	564,203	37,737	(17,759)	584,181	171,997
	-	-	-	-	131,975
5	851,290	4,279	-	855,569	20,750
10	46,640	5,732	-	52,372	27,272
	\$ 5,983,360	391,503	(17,759)	6,357,104	8,998,666

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Expense Detail
June 30, 2010**

	Actual	Operating Budget
Operating expenses:		
Electric Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 33,095	33,140
Power plant:		
Fuel, coal and oil	40,650	25,000
Purchased power	5,042,525	5,230,750
Production:		
Labor	227,543	227,600
Chemicals	(7,916)	10,000
Maintenance:		
Labor	70,869	60,150
Supplies	19,997	14,000
Other:		
Meal allowance	6	25
Miscellaneous	258	1,307
Depreciation	330,108	335,000
Freight	32	50
Miscellaneous contracted service	76,871	100,000
Permits	140	2,300
Renewable energy certificates	3,651	15,000
Repairs	2,547	2,000
Insurance	42,175	48,275
Bond issuance cost	15,417	11,832
	\$ 5,897,968	6,116,429
Total power, pumping and treatment plant		

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2010

	Actual	Operating Budget
Operating expenses:		
Electric Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 33,095	33,140
Maintenance of line:		
Labor	199,430	223,850
Supplies	25,285	48,000
Maintenance of park and street:		
Lighting:		
Labor	11,115	7,325
Supplies	7,007	25,000
Maintenance of meters:		
Labor	32,778	21,775
Supplies	34,607	18,500
Removing and resetting meters	43,214	36,275
Other:		
Depreciation	277,857	270,000
Vehicle supplies	-	500
Vehicle repair	3,966	4,000
Mileage	-	150
Lodging	538	500
Meals allowance	38	150
Freight	49	50
Miscellaneous contracted services	34,987	50,000
Repairs	2,354	1,000
Insurance	42,175	48,275
Chemicals	-	200
Miscellaneous	2,162	1,184
Books and instructional materials	-	500
Education and training	45	1,000
	\$ 750,702	791,374
Total transmission and distribution		

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2010

	Actual	Operating Budget
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 36,277	33,075
Maintenance of pumping equipment:		
Labor	245,479	281,000
Supplies	68,302	76,000
Outside analytical services	3,897	4,500
Pumping station expense	4,997	4,000
Insurance	34,787	40,050
Chemicals	115,367	90,000
Depreciation	221,556	220,000
Other pumping and treatment expenses:		
Permits	135	1,500
Education and training	884	1,200
Books and instructional materials	-	100
Dues, assessments and subscriptions	2,069	-
Freight	277	100
Miscellaneous	576	1,019
Mileage	442	1,000
Lodging	509	400
Meal allowance	100	200
Miscellaneous contracted services	26,055	25,000
Repairs	1,873	3,000
Vehicle repairs and supplies	785	2,000
	\$ 764,367	784,144
Total pumping and treatment plant	\$ 764,367	784,144

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2010

	Actual	Operating Budget
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 36,277	33,075
Maintenance of mains:		
Labor	199,132	170,450
Supplies	38,052	40,000
Maintenance of meters:		
Labor	3,954	11,450
Supplies	12,204	38,000
Removing and resetting meters	72,637	57,450
Maintenance of hydrants:		
Labor	13,203	12,100
Supplies	2,800	5,000
Other transmission and distribution:		
Vehicle expense	-	500
Depreciation	192,877	172,000
Permits	148	700
Education and training	782	1,250
Miscellaneous	4,723	4,951
Mileage	441	750
Lodging	260	750
Meal allowance	325	350
Freight	-	100
Miscellaneous contracted services	429	5,000
Repairs	3,112	3,200
Vehicle repairs	3,561	6,000
Analytical service	-	50
Insurance	34,786	40,050
	\$ 619,703	603,176
Total transmission and distribution		

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2010

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds:		
General and administrative:		
Education and training	\$ -	500
Advertising	2,515	2,500
Repairs	1,858	300
Business meals	248	450
Administrative salaries	154,110	145,875
Administrative supplies	8,187	7,000
Trustee salaries	7,200	7,200
Accounting and collecting labor	188,760	184,650
Computer maintenance and supplies	19,543	8,500
Maintenance agreements	10,738	10,600
Bank charges	8,347	1,500
Courtesy	1,839	1,800
Insurance	16,627	16,610
Dues, assessments and subscriptions	33,157	29,000
Meter reading wages	73,585	69,115
Meter reading supplies	715	100
Provision for doubtful accounts	34,909	37,000
Printing	3,382	5,100
First aid supplies	41	100
Postage	20,151	19,200
Telephone	15,776	15,000
Contractual services	8,556	10,000
Professional fees	20,992	20,800
Payroll tax expense	128,708	129,125
Pension expense (IPERS)	112,356	109,650
Group insurance	282,389	273,375
Mileage	1,923	3,000
Transportation and vehicle expense	26,429	30,100
Options 2000	12,209	14,000

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2010

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	11,920	8,000
Safety program	2,193	3,000
Miscellaneous	7,262	3,650
Lodging	464	1,500
Drug testing	298	1,000
Economic development	10,000	13,000
Depreciation	24,261	22,500
 Total general and administrative	 \$ 1,251,648	 1,204,800
 Allocated as follows:		
Electric Fund	\$ 1,013,835	
Water Fund	237,813	
 Total as above	 \$ 1,251,648	

* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities
June 30, 2010

Water Revenue Note Issued December 1, 1999			Electric Revenue Note Issued May 20, 2009		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	
2011	3.00 %	\$ 296,000	3.45 %	\$	440,000
2012	3.00	306,000	3.45		455,000
2013	3.00	317,000	3.45		475,000
2014	3.00	328,000	3.45		490,000
2015	3.00	340,000	3.45		505,000
2016	3.00	352,000	3.45		500,000
2017	3.00	365,000	3.45		310,000
2018	3.00	377,000	-		-
2019	3.00	391,000	-		-
2020	3.00	404,000	-		-
Total		\$ 3,476,000		\$	3,175,000

See accompanying independent auditors' report.



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Independent Auditors' 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
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mt. Pleasant 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 an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mt. Pleasant 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Mt. Pleasant Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-B-10 and II-C-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mt. Pleasant Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and 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*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Mt. Pleasant Municipal Utilities' operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Mt. Pleasant Municipal 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.

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Mt. Pleasant 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 citizens of Mt. Pleasant, the officials and employees of Mt. Pleasant Municipal Utilities and other parties to whom Mt. Pleasant Municipal Utilities may report, and 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 Mt. Pleasant 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.

TD&T Financial Group, P.C.

Mt. Pleasant, Iowa
October 12, 2010

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings
Year Ended June 30, 2010

Part I: Summary of the Independent Auditors' Results:

1. A qualified opinion was issued on the financial statements because of the effects of appraised values of equipment and fund balance breakdown.
2. Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2010

Part II: Findings Related to the Financial Statements:

Significant Deficiencies:

II-A-10 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-10 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.

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

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-C-10 Compensated Absences – The Utilities does not have a vacation or sick leave policy for employees not covered by the Local Union No. 55 contract.

Recommendation – The Utilities should implement a vacation and sick leave policy which covers employees not covered by the Local Union No. 55 contract.

Response – We will review policies for compensated absences.

Conclusion – Response accepted.

Instances of Non-Compliance:

No matters were noted.

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Schedule of Findings (Continued)
Year Ended June 30, 2010**

Part III: Other Findings Related to Required Statutory Reporting:

III-A-10 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2010 did not exceed the amount budgeted.

III-B-10 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-C-10 Travel Expense – No expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

III-D-10 Business Transactions – Business transactions between the Utilities and Utilities' employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Carver, employee	Sale of computer	\$ 66
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and maintenance	\$ 2,725
Jerry Glanzman, spouse of employee	Computer consulting	\$ 560
Randy Neff, employee	Sale of two computers	\$ 178
Reynolds Motors, Inc. owner Earl Reynolds father-in-law of employee	Truck tires and tail light	\$ 914
Loren Rich, employee	Sale of computer	\$ 100

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Randy Carver, Jerry Glanzman, Randy Neff, Reynolds Motors, Inc. and Loren Rich do not appear to represent a conflict of interest since the total was less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa. The Municipal Utilities should consult legal counsel to determine the disposition of this matter.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2010

Part III: Other Findings Related to Statutory Reporting (Continued):

III-E-10 Bond Coverage – Surety bond coverage of Municipal Utilities' 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.

III-F-10 Utility Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-10 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

III-H-10 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.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Staff

This audit was performed by:

Tom L. Holtkamp, CPA, Manager
Jaime Ackles, CPA, Senior Staff Accountant
Jessica Thompson, Staff Accountant