

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

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

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Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Sturm	Trustee	July, 2015
Jeff Boerner	Trustee	July, 2011
Brad Lane	Trustee	July, 2012
Debra Tvrdik	Trustee	July, 2013
Bruce Towne	Trustee	July, 2014
Charles Angstrom	Public Works Director	Indefinite
Patrice Klingson	Secretary	Indefinite
Johnson Law Firm	Attorney	Indefinite

Independent Auditor's Report

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

We have audited the accompanying financial statement of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2010. This financial statement is the responsibility of the Gowrie Municipal Utilities' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As described in note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in note 1, the financial statement of the Gowrie Municipal Utilities is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Gowrie, Iowa that is attributable to the transactions of the Utilities.

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of June 30, 2010, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2010 on our consideration of Gowrie Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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 7 and 15 through 16 are not required parts of the financial statement, 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 an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in Schedules 1 through 11, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

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

October 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gowrie Municipal Utilities provides this Management's Discussion and Analysis of its financial statement. 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 statement, which follows.

2010 FINANCIAL HIGHLIGHTS

- Operating receipts of the Utilities increased 2.2%, or approximately \$28,000 from fiscal 2009 to fiscal 2010.
- Operating disbursements increased 4.3%, or approximately \$48,000 in fiscal 2010 over fiscal 2009.
- The Utilities' total cash basis net assets increased 6.6%, or approximately \$72,000, from June 30, 2009 to June 30, 2010.

USING THIS ANNUAL REPORT

The Gowrie Municipal Utilities has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Gowrie Municipal Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Gowrie Municipal Utilities' cash basis of accounting.

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Gowrie Municipal Utilities' receipts and disbursements and whether the Utilities' financial position has improved or deteriorated as a result of the year's activities.

Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

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

Other Supplementary Information provides detailed information about the individual Enterprise Funds. In addition, the Schedule of Indebtedness provides detail of the Utilities' debt at June 30, 2010.

FINANCIAL ANALYSIS OF THE GOWRIE MUNICIPAL UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Gowrie Municipal Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balances at year end. Over time, readers of the financial statement are able to determine the Gowrie Municipal Utilities' financial position by analyzing the increase and decrease in cash basis net assets.

The Utilities' maintain five Enterprise Funds to provide separate information for the water, sewer, electric, garbage and meter deposit departments. A summary of cash receipts, disbursements and changes in cash basis net assets for the year ended June 30, 2010 and June 30, 2009 are presented below:

Changes in Cash Basis Net Assets (Expressed in Thousands)		
	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service	\$ 1,254	1,227
General receipts:		
Unrestricted interest on investments	16	28
Other general receipts	<u>66</u>	<u>82</u>
Total receipts	<u>1,336</u>	<u>1,337</u>
Disbursements	<u>1,264</u>	<u>1,235</u>

Net change in cash basis net assets	72	102
Cash basis net assets beginning of year	<u>1,090</u>	<u>988</u>
Cash basis net assets end of year	\$ 1,162 =====	1090 =====

Total receipts for the fiscal year were \$1.336 million compared to \$1.337 million last year. This decrease was due primarily to less interest and miscellaneous receipts in 2010. The cash balance increased by approximately \$72,000 over the prior year. Total disbursements for the fiscal year increased by 2.2% to a total of \$1.264 million. This increase was due to an increase in operating disbursements of approximately \$48,000.

BUDGETARY HIGHLIGHTS

The Gowrie Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City of Gowrie, Iowa. There were no budget amendments for the Utilities during the year ended June 30, 2010.

The Utilities' receipts were \$26,442 more than budgeted. This was primarily due to the Utilities' receiving more miscellaneous receipts than anticipated.

Total disbursements were \$78,667 less than budgeted. This was primarily due to power purchases being less than anticipated.

DEBT ADMINISTRATION

At June 30, 2010, the Utilities had \$1,080,815 in notes and bonds compared to \$1,156,348 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Revenue note	\$ 112	137
Revenue bond	<u>969</u>	<u>1,019</u>
Total	\$ 1,081 =====	1,156 =====

Debt decreased as a result of no new issuances this year and principal payments of \$75,533 on existing debt.

ECONOMIC FACTORS

Current economic conditions play a significant role in the day to day operations of the Utilities. These conditions include, but are not limited to maintaining machinery and equipment.

In July 2010, the Utilities approved the purchase of a new generator. During the 2011 fiscal year, Gowrie Municipal Utilities may look into doing a rate analysis to make certain they are charging enough for electricity.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives.

If you have questions about this report or need additional financial information, contact Gowrie Municipal Utilities, 1102 Main Street, Gowrie, Iowa 50543.

Financial Statement

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Exhibit A

Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2010

Operating receipts:	
Use of money and property	\$ 3,240
Charges for service	1,253,782
Miscellaneous	48,513
Total operating receipts	<u>1,305,535</u>
Operating disbursements:	
Business type activities	<u>1,150,598</u>
Total operating disbursements	<u>1,150,598</u>
Excess of operating receipts over operating disbursements	<u>154,937</u>
Non-operating receipts (disbursements):	
Interest on investments	16,383
Miscellaneous	14,189
Debt service	<u>(113,434)</u>
Total non-operating receipts (disbursements)	<u>(82,862)</u>
Net change in cash basis net assets	72,075
Cash basis net assets beginning of year	<u>1,090,265</u>
Cash basis net assets end of year	<u><u>1,162,340</u></u>
Cash Basis Net Assets	
Restricted for:	
Debt service	84,570
Customer deposits	7,472
Improvements	125,744
Unrestricted	<u>944,554</u>
Total cash basis net assets	<u><u>\$ 1,162,340</u></u>

See notes to financial statements.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2010

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Gowrie Municipal Utilities is a component unit of the City of Gowrie, Iowa as determined by criteria specified by the Governmental Accounting Standards Board. Gowrie Municipal Utilities is legally separate from the City, but is financially accountable to the City. The Utilities is governed by a five-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council. The Utilities provide water, electric, sewer and garbage services to the citizens of the City of Gowrie.

B. Basis of Presentation

The accounts of the Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

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

Gowrie Municipal Utilities
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Notes to Financial Statement

June 30, 2010

D. Restricted Assets and Net Assets

Funds set aside for improvements, customer deposits and debt service are classified as restricted.

E. Budgets and Budgetary Accounting

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.

(2) **Cash**

The Utilities' deposits in banks 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 Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments at June 30, 2010. During the year, the Utilities deposited excess funds in certificates of deposit.

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

Gowrie Municipal Utilities
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Notes to Financial Statement

June 30, 2010

(3) Notes and Bonds Payable

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

Year Ending June 30,	Revenue Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 26,474	3,842	52,000	29,070	78,474	32,912
2012	27,449	2,867	54,000	27,510	81,449	30,377
2013	28,460	1,856	56,000	25,890	84,460	27,746
2014	29,432	807	57,000	24,210	86,432	25,017
2015-2019	---	---	310,000	94,500	310,000	94,500
2020-2024	---	---	360,000	45,000	360,000	45,000
2025-2026	---	---	<u>80,000</u>	<u>3,630</u>	<u>80,000</u>	<u>3,630</u>
Total	\$ 111,815	9,372	969,000	249,810	1,080,815	259,182
	=====	=====	=====	=====	=====	=====

Revenue Note

The Utilities have pledged future electric customer receipts, net of specified operating disbursements, to repay \$250,000 in electric revenue notes issued in March 2004. Proceeds from the notes provided financing for electric system improvements. The notes are payable solely from electric customer net receipts and are payable through 2014. Annual principal and interest payments on the notes are expected to require 100 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$121,187. For the current year, principal and interest paid and total customer net receipts were \$30,316 and \$30,106 respectively.

The resolution providing for the issuance of the revenue note includes the following provisions:

- (a) The notes 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 funds.
- (b) An “Electric Revenue Fund” is to be set aside and used in maintaining and operating the electric system and after payment of operating expenses be used to pay principal and interest on the note.

Gowrie Municipal Utilities
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Notes to Financial Statement

June 30, 2010

Revenue Bonds

The Utilities have pledged future water customer receipts, net of specified operating disbursements, to repay \$695,000 in water revenue bonds issued in July 2004. Proceeds from the bonds provided financing for improvements to the water treatment plant. The bonds are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 66 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$550,230. For the current year, principal and interest paid and total customer net receipts were \$40,243 and \$60,891, respectively.

The Utilities have pledged future sewer customer receipts, net of specified operating disbursements, to repay \$700,000 in sewer revenue bonds issued in May 2006. Proceeds from the bonds provided financing for the construction of improvements to the wastewater treatment system. The bonds are payable solely from sewer customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 78 percent of net receipts. The total principal and interest remaining to be paid on bonds is \$668,580. For the current year, principal and interest paid and total customer net receipts were \$42,875 and \$55,045 respectively.

The resolutions providing for the issuance of the water and sewer revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2010

(4) Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the Utilities are required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$16,511, \$15,323, and \$13,762 respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utilities employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. Sick leave hours accumulate and are paid only when used. The Utilities' approximate liability for earned vacation payable to employees at June 30, 2010, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,688
	=====

This liability has been computed based on rates of pay in effect at June 30, 2010.

(6) Deferred Compensation Agreement

Gowrie Municipal Utilities previously entered into a non qualified deferred compensation agreement with a former employee. The Utilities has a fiduciary responsibility over the assets in the fund and the funds remain the property of the Utilities until actually distributed to the employee or his beneficiary in accordance with the provisions of the agreement.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2010

(7) Risk Management

Gowrie Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Subsequent Events

Subsequent events have been evaluated through October 22, 2010, which is the date the financial statements were available to be issued. In July 2010, the Gowrie Municipal Utilities board decided to purchase a 2500 KW Cat generator to replace the existing generators that will not meet the new EPA rules as of May 2013. The estimated cost is \$640,000.

Required Supplementary Information

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

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

Required Supplementary Information

Year ended June 30, 2010

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts:				
Use of money and property	\$ 19,623	22,570	22,570	(2,947)
Charges for service	1,253,782	1,243,220	1,243,220	10,562
Miscellaneous	<u>62,702</u>	<u>43,875</u>	<u>43,875</u>	<u>18,827</u>
Total receipts	<u>1,336,107</u>	<u>1,309,665</u>	<u>1,309,665</u>	<u>26,442</u>
Disbursements:				
Business type activities	<u>1,264,032</u>	<u>1,342,699</u>	<u>1,342,699</u>	<u>78,667</u>
Change in cash basis net assets	72,075	(33,034)	(33,034)	105,109
Cash basis net assets beginning of year	<u>1,090,265</u>	<u>(625,243)</u>	<u>(625,243)</u>	<u>1,715,508</u>
Cash basis net assets end of year	<u>\$ 1,162,340</u>	<u>(658,277)</u>	<u>(658,277)</u>	<u>1,820,617</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

Gowrie Municipal Utilities’ prepares a budget on the cash basis of accounting and submits it to the City Council. 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 classes of disbursements, known as functions, not by fund. Gowrie Municipal Utilities’ disbursements are budgeted in the business type activities function. There were no budget amendments for the Utilities during fiscal 2010.

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

Other Supplementary Information

Gowrie Municipal Utilities
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Schedule 1

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Electric Department

As of and for the year ended June 30, 2010

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sale of electricity	\$ 874,137	-	874,137
Reconnection fees	<u>1,202</u>	<u>-</u>	<u>1,202</u>
	<u>875,339</u>	<u>-</u>	<u>875,339</u>
Miscellaneous:			
Merchandise and labor sales	6,685	-	6,685
Sales tax collected	<u>35,565</u>	<u>-</u>	<u>35,565</u>
	<u>42,250</u>	<u>-</u>	<u>42,250</u>
Total operating receipts	<u>917,589</u>	<u>-</u>	<u>917,589</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	178,416	-	178,416
FICA - Employer's portion	13,649	-	13,649
IPERS - Employer's portion	11,875	-	11,875
Group insurance	43,489	-	43,489
Uniforms	600	-	600
Employee medical reimbursement	1,931	-	1,931
Workers compensation	<u>5,432</u>	<u>-</u>	<u>5,432</u>
	<u>255,392</u>	<u>-</u>	<u>255,392</u>
Services and commodities:			
Advertising and legal publication	1,547	-	1,547
Consulting and legal	2,662	-	2,662
Power purchased	482,604	-	482,604
General insurance	14,112	-	14,112
Miscellaneous contractual work	2,157	-	2,157
Postage and shipping	1,928	-	1,928
Sales and property tax remitted	46,617	-	46,617
Telephone	1,426	-	1,426
Travel and conference	273	-	273
Utility service	12,035	-	12,035
Dues and membership	5,704	-	5,704
Buildings and maintenance supplies	9,230	-	9,230
Small equipment	2,991	-	2,991
Motor vehicle supplies and maintenance	4,583	-	4,583
Office supplies	4,819	-	4,819
Operating supplies and materials	2,524	-	2,524

(continued)

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 1

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Electric Department

As of and for the year ended June 30, 2010

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Refunds	924	-	924
Contribution to City	21,213	-	21,213
Distribution supplies and material	<u>14,742</u>	<u>-</u>	<u>14,742</u>
	<u>632,091</u>	<u>-</u>	<u>632,091</u>
Total operating disbursements	<u>887,483</u>	<u>-</u>	<u>887,483</u>
Excess of operating receipts over operating disbursements	<u>30,106</u>	<u>-</u>	<u>30,106</u>
Non-operating receipts (disbursements):			
Interest on investments	12,027	16	12,043
Miscellaneous	12,468	-	12,468
Debt service:			
Principal redeemed	-	(25,533)	(25,533)
Interest paid	-	(4,783)	(4,783)
Total non-operating receipts (disbursements)	<u>24,495</u>	<u>(30,300)</u>	<u>(5,805)</u>
Excess (deficiency) of receipts over (under) disbursements	54,601	(30,300)	24,301
Operating transfer in	-	30,360	30,360
Operating transfer out	<u>(30,360)</u>	<u>-</u>	<u>(30,360)</u>
Net change in cash basis net assets	24,241	60	24,301
Cash basis net assets beginning of year	<u>724,363</u>	<u>2,546</u>	<u>726,909</u>
Cash basis net assets end of year	<u>\$ 748,604</u>	<u>2,606</u>	<u>751,210</u>
Cash Basis Net Assets			
Restricted for debt service	\$ -	2,606	2,606
Unrestricted	<u>748,604</u>	<u>-</u>	<u>748,604</u>
Total cash basis net assets	<u>\$ 748,604</u>	<u>2,606</u>	<u>751,210</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Water Department

As of and for the year ended June 30, 2010

	Water Operations & <u>Maintenance</u>	Water Sinking <u>2004 Project</u>	Water <u>Reserve</u>
Operating receipts:			
Use of money and property:			
Tower rent	\$ -	-	-
Charges for service:			
Sale of water	150,477	-	-
Reconnection fees	375	-	-
	150,852	-	-
Miscellaneous:			
Merchandise and labor sales	1,743	-	-
Total operating receipts	152,595	-	-
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	36,979	-	-
FICA - Employer's portion	2,829	-	-
IPERS - Employer's portion	2,463	-	-
Group insurance	6,359	-	-
Uniforms	200	-	-
Workers compensation	1,146	-	-
	49,976	-	-
Services and commodities:			
Advertising and legal publication	221	-	-
Consulting and legal	819	-	-
General insurance	3,217	-	-
Miscellaneous contractual work	8,521	-	-
Postage and shipping	606	-	-
Telephone	1,272	-	-
Travel and conference	135	-	-
Utility service	12,350	-	-
Dues and memberships	491	-	-
Building and maintenance supplies	804	-	-
Small equipment	3,599	-	-
Chemicals and testing	2,437	-	-
Motor vehicle supplies and maintenance	720	-	-
Office supplies	1,414	-	-
Operating supplies and materials	390	-	-
Distribution supplies and material	3,978	-	-
Contribution to City	754	-	-
	41,728	-	-
Total operating disbursements	91,704	-	-

Schedule 2

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
3,240	-	3,240
2,485	-	152,962
-	-	375
2,485	-	153,337
-	-	1,743
5,725	-	158,320
-	-	36,979
-	-	2,829
-	-	2,463
-	-	6,359
-	-	200
-	-	1,146
-	-	49,976
-	-	221
-	-	819
-	-	3,217
-	-	8,521
-	-	606
-	-	1,272
-	-	135
-	-	12,350
-	-	491
-	-	804
-	-	3,599
-	-	2,437
-	-	720
-	-	1,414
-	-	390
-	-	3,978
-	-	754
-	-	41,728
-	-	91,704

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Water Department

As of and for the year ended June 30, 2010

	Water Operations & <u>Maintenance</u>	Water Sinking <u>2004 Project</u>	Water <u>Reserve</u>
Excess of operating receipts over operating disbursements	<u>60,891</u>	<u>-</u>	<u>-</u>
Non-operating receipts (disbursements):			
Interest on investments	1,622	-	109
Miscellaneous	1,020	-	-
Debt service:			
Principal redeemed	-	(25,000)	-
Interest paid	-	(15,243)	-
Total non-operating receipts (disbursements)	<u>2,642</u>	<u>(40,243)</u>	<u>109</u>
Excess (deficiency) of receipts over (under) disbursements	63,533	(40,243)	109
Operating transfer in	-	40,275	-
Operating transfer out	<u>(40,275)</u>	<u>-</u>	<u>-</u>
Net change in cash basis net assets	23,258	32	109
Cash basis net assets beginning of year	<u>16,419</u>	<u>817</u>	<u>115,276</u>
Cash basis net assets end of year	<u>\$ 39,677</u>	<u>849</u>	<u>115,385</u>
Cash Basis Net Assets			
Restricted for:			
Debt service	\$ -	849	77,500
Improvements	-	-	37,885
Unrestricted	<u>39,677</u>	<u>-</u>	<u>-</u>
Total cash basis net assets	<u>\$ 39,677</u>	<u>849</u>	<u>115,385</u>

See accompanying independent auditor's report.

Schedule 2

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
<u>5,725</u>	<u>-</u>	<u>66,616</u>
661	-	2,392
-	-	1,020
-	-	(25,000)
<u>-</u>	<u>-</u>	<u>(15,243)</u>
<u>661</u>	<u>-</u>	<u>(36,831)</u>
6,386	-	29,785
-	-	40,275
<u>-</u>	<u>-</u>	<u>(40,275)</u>
6,386	-	29,785
<u>61,473</u>	<u>20,000</u>	<u>213,985</u>
<u>67,859</u>	<u>20,000</u>	<u>243,770</u>
-	-	78,349
67,859	20,000	125,744
<u>-</u>	<u>-</u>	<u>39,677</u>
<u>67,859</u>	<u>20,000</u>	<u>243,770</u>

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 3

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Sewer Department

As of and for the year ended June 30, 2010

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sewer rental fees	\$ 136,061	-	136,061
Total operating receipts	<u>136,061</u>	<u>-</u>	<u>136,061</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	32,629	-	32,629
FICA - Employer's portion	2,496	-	2,496
IPERS - Employer's portion	2,172	-	2,172
Group insurance	6,358	-	6,358
Uniforms	200	-	200
Workers compensation	1,623	-	1,623
	<u>45,478</u>	<u>-</u>	<u>45,478</u>
Services and commodities:			
Advertising and legal publication	165	-	165
Consulting and legal	614	-	614
General insurance	2,338	-	2,338
Miscellaneous contractual work	12,837	-	12,837
Postage and shipping	487	-	487
Telephone	772	-	772
Travel and conference	10	-	10
Utility service	13,331	-	13,331
Dues and membership	214	-	214
Building and maintenance supplies	1,280	-	1,280
Small equipment	81	-	81
Motor vehicle supplies and maintenance	748	-	748
Office supplies	1,247	-	1,247
Operating supplies and materials	259	-	259
Distribution supplies and materials	1,155	-	1,155
	<u>35,538</u>	<u>-</u>	<u>35,538</u>
Total operating disbursements	<u>81,016</u>	<u>-</u>	<u>81,016</u>

(continued)

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 3

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Sewer Department

As of and for the year ended June 30, 2010

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Excess of operating receipts over operating disbursements	<u>55,045</u>	<u>-</u>	<u>55,045</u>
Non-operating receipts (disbursements):			
Interest on investments	1,671	-	1,671
Miscellaneous	701	-	701
Debt service:			
Principal redeemed	-	(25,000)	(25,000)
Interest paid	<u>-</u>	<u>(17,875)</u>	<u>(17,875)</u>
Total non-operating receipts (disbursements)	<u>2,372</u>	<u>(42,875)</u>	<u>(40,503)</u>
Excess (deficiency) of receipts over (under) disbursements	57,417	(42,875)	14,542
Operating transfer in	-	42,915	42,915
Operating transfer out	<u>(42,915)</u>	<u>-</u>	<u>(42,915)</u>
Net change in cash basis net assets	14,502	40	14,542
Cash basis net assets beginning of year	<u>114,416</u>	<u>3,575</u>	<u>117,991</u>
Cash basis net assets end of year	<u>\$ 128,918</u>	<u>3,615</u>	<u>132,533</u>
Cash Basis Net Assets			
Restricted for:			
Debt service	\$ -	3,615	3,615
Unrestricted	<u>128,918</u>	<u>-</u>	<u>128,918</u>
Total cash basis net assets	<u>\$ 128,918</u>	<u>3,615</u>	<u>132,533</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 4

Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Garbage Department

As of and for the year ended June 30, 2010

	Garbage
Operating receipts:	
Charges for service:	
Garbage service	\$ 89,045
Total operating receipts	89,045
Operating disbursements:	
Business type activities:	
Services and commodities:	
Miscellaneous contractual work	82,788
Other agency payments	3,449
Total operating disbursements	86,237
Excess of operating receipts over operating disbursements	2,808
Non-operating receipts:	
Interest on investments	223
Net change in cash basis net assets	3,031
Cash basis net assets beginning of year	24,324
Cash basis net assets end of year	\$ 27,355
Cash Basis Net Assets	
Unrestricted	\$ 27,355
Total cash basis net assets	\$ 27,355

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 5

Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Meter Deposits

As of and for the year ended June 30, 2010

	<u>Meter Deposits</u>
Operating receipts:	
Charges for service	\$ -
Miscellaneous	4,520
Total operating receipts	<u>4,520</u>
Operating disbursements:	
Business type activities	<u>4,158</u>
Total operating disbursements	<u>4,158</u>
Excess of operating receipts over operating disbursements	<u>362</u>
Non-operating receipts:	
Interest on investments	<u>54</u>
Net change in cash basis net assets	416
Cash basis net assets beginning of year	<u>7,056</u>
Cash basis net assets end of year	<u><u>\$ 7,472</u></u>
Cash Basis Net Assets	
Restricted for customer deposits	\$ 7,472
Unrestricted	<u>-</u>
Total cash basis net assets	<u><u>\$ 7,472</u></u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule of Indebtedness

Year ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Electric Revenue Note - Security Savings Bank	Mar 9, 2004	3.65%	\$ 250,000
Water Revenue Bonds - State Revolving Fund	Jul 20, 2004	3.00%	\$ 695,000
Sewer Revenue Bonds - State Revolving Fund	Jun 1, 2006	3.00%	\$ 700,000

See accompanying independent auditor's report.

Schedule 6

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$ 137,348</u>	<u>-</u>	<u>25,533</u>	<u>111,815</u>	<u>4,783</u>	<u>-</u>
<u>\$ 469,000</u>	<u>-</u>	<u>25,000</u>	<u>444,000</u>	<u>15,243</u>	<u>-</u>
<u>\$ 550,000</u>	<u>-</u>	<u>25,000</u>	<u>525,000</u>	<u>17,875</u>	<u>-</u>

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 7

Note Maturities

June 30, 2010

Year Ending <u>June 30,</u>	<u>Electric Revenue Note</u> <u>Issued March 9, 2004</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2011	3.65 %	\$ 26,474
2012	3.65	27,449
2013	3.65	28,460
2014	3.65	<u>29,432</u>
Total		<u>\$ 111,815</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 8

Revenue Bond Maturities

June 30, 2010

Year Ending June 30,	Water Revenue Bonds		Sewer Revenue Bonds		Total
	Series 2004 Issued July 20, 2004		Series 2006 Issued June 1, 2006		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2011	3.00 %	\$ 26,000	3.00 %	\$ 26,000	52,000
2012	3.00	27,000	3.00	27,000	54,000
2013	3.00	28,000	3.00	28,000	56,000
2014	3.00	28,000	3.00	29,000	57,000
2015	3.00	29,000	3.00	29,000	58,000
2016	3.00	30,000	3.00	30,000	60,000
2017	3.00	31,000	3.00	31,000	62,000
2018	3.00	32,000	3.00	32,000	64,000
2019	3.00	33,000	3.00	33,000	66,000
2020	3.00	34,000	3.00	34,000	68,000
2021	3.00	35,000	3.00	35,000	70,000
2022	3.00	36,000	3.00	36,000	72,000
2023	3.00	37,000	3.00	37,000	74,000
2024	3.00	38,000	3.00	38,000	76,000
2025		-	3.00	39,000	39,000
2026		-	3.00	41,000	41,000
	Total	<u>\$ 444,000</u>		<u>\$ 525,000</u>	<u>\$ 969,000</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 9

Schedule of Insurance Coverage

Year ended June 30, 2010

<u>Insurer</u>	<u>Coverage</u>	<u>Amount</u>
Employers Mutual Casualty Insurance Company (Expires 4-1-2011)	<u>Comprehensive General Liability</u>	\$ 2,000,000/\$2,000,000
	Bodily injury	1,000,000/1,000,000
	Fire damage	100,000
	Medical expense	5,000
	<u>Blanket Building and Personal Property</u>	4,390,081
	<u>Automobile Coverage</u>	
	Bodily injury	1,000,000
	Collision (\$1,000 deductible)	ACV, or cost of repairs
	Comprehensive (\$100 deductible)	ACV, or cost of repairs
	Uninsured motorist	1,000,000
Underinsured motorist	1,000,000	
Medical payments	5,000	
	<u>Umbrella Liability</u>	2,000,000/2,000,000
	Retained limit	10,000
	<u>Comprehensive Employee Dishonesty Bond</u>	
	Public employees (\$2,000 deductible)	200,000
	Forgery or alteration (\$250 deductible)	10,000
	<u>Workers Compensation</u>	500,000
	<u>Board Members and Employees Liability</u>	
	Each loss (\$1,500 deductible)	1,000,000
	Aggregate	1,000,000
	<u>Premise Burglary</u>	
	Inside/outside premises	10,000/10,000
	Premise burglary	15,000
Cincinnati Insurance Company (Expires 4-1-2012)	<u>Boiler Insurance</u>	
	Engines and generators (\$25,000 deductible)	5,000,000

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 10

Electric Department Data

Year ended June 30, 2010

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

Commercial	140
Residential	477
Street lights	1

2. Electricity purchased – 8,005,809 K.W.H.

3. Electricity billed – 7,341,620 K.W.H.

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 11

Water Department Data

Year ended June 30, 2010

Number of customers served 477

Water rates:

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

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

See accompanying independent auditor's report.

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

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

We have audited the accompanying financial statement of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 22, 2010. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gowrie Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of Gowrie Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gowrie Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 a 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 combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Gowrie Municipal Utilities' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses. A significant deficiency is a deficiency, or 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 deficiency described in Part I of the accompanying Schedule of Findings as item I-C-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gowrie Municipal Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Gowrie 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 Gowrie Municipal Utilities' responses and, accordingly, we express no opinion on them.

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

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

October 22, 2010

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie
Schedule of Findings
Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-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. The Utilities has one employee handling most of the financial duties, including reconciling accounts and recording financial data.

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

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

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

I-B-10 Preparation of Financial Statement – The Utilities do not have an internal control system designed to provide for preparation of the financial statement on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. Therefore, as auditors, we were requested to draft the financial statement and accompanying notes to the financial statement. This circumstance is not unusual for an entity similar in size to the Gowrie Municipal Utilities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Gowrie Municipal Utilities

A Component Unit of the City of Gowrie

Schedule of Findings

Year ended June 30, 2010

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statement, including all necessary disclosures, can be considered costly and ineffective. However, it is the responsibility of the Utilities’ management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources to remain current on reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue to evaluate the risks to be accepted in preparation of the financial statement.

Conclusion – Response accepted.

I-C-10 Personnel Policy – The Utilities have a written personnel policy but certain parts are not clearly defined. The policy does not state who is to earn comp time.

Recommendation – In order to clear up any misunderstanding, the Utilities should review and revise its personnel policy to state who can and how much comp time can be earned.

Response – We will work on revising the policy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie
Schedule of Findings
Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget - The City of Gowrie and Gowrie Municipal Utilities submit a combined budget. The Utilities disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-C-10 Travel Expense - No disbursements of the Utilities’ money for travel expenses of spouses of the Utilities’ officials or employees were noted.
- II-D-10 Business Transactions – No business transactions between the Utilities and Utilities’ officials or employees were noted.
- II-E-10 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to ensure the coverage is adequate for current operations.
- II-F-10 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-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.
- II-H-10 Revenue Bond and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.