

**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, 2011

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, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
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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Centerville
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Ottumwa
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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, 2011, 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, 2011, 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 September 13, 2011 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 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 five years ended June 30, 2010 (none of which are present herein) and expressed qualified opinions on those financial statements. 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
September 13, 2011

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, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 7.4%, or approximately \$706,500, from fiscal year 2010 to fiscal year 2011.
- Operating expenses increased 4.5%, or approximately \$415,900, from fiscal year 2010 to fiscal year 2011.
- Mt. Pleasant Utilities' net assets increased 2.0%, or approximately \$308,500, from June 30, 2010 to June 30, 2011.

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>2011</u>	<u>2010</u>
Current and other assets	\$ 5,017,834	5,590,638
Capital assets	<u>18,124,973</u>	<u>18,027,285</u>
Total assets	\$ <u>23,142,807</u>	<u>23,617,923</u>
Long-term liabilities	\$ 5,579,880	6,310,521
Other liabilities	<u>1,561,111</u>	<u>1,614,108</u>
Total liabilities	\$ <u>7,140,991</u>	<u>7,924,629</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 12,266,822	11,443,513
Restricted	770,110	770,578
Unrestricted	<u>2,964,884</u>	<u>3,479,203</u>
Total net assets	\$ <u>16,001,816</u>	<u>15,693,294</u>

Net assets of business type activities increased approximately \$308,500, or 2.0% over fiscal year 2010. 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 \$2,965,000 at the end of this year.

Changes in Net Assets
Year Ended June 30,

	2011	2010
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 10,276,303	9,569,832
Non-operating revenues:		
Investment earnings	21,566	27,322
Other non-operating revenue	19,224	24,293
Total revenues	10,317,093	9,621,447
Operating expenses:		
Power, pumping and treatment plant	6,996,894	6,662,335
Transmission and distribution	1,406,751	1,370,405
General and administration	1,296,673	1,251,648
Non-operating expenses:		
Interest expense	206,065	247,346
Other non-operating expense	2,188	3,321
Total expenses	9,908,571	9,535,055
Increase in net assets	408,522	86,392
Net assets beginning of year	15,693,294	15,706,902
Permanent transfer to City of Mt. Pleasant	(100,000)	(100,000)
Net assets end of year	\$ 16,001,816	15,693,294

Revenues for business type activities increased by approximately \$696,000 over the prior year while total expenses were approximately \$374,000 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 2011 with a \$7,147,415 net asset balance compared to the prior year ending net asset balance of \$6,948,028.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2011 with a \$8,854,401 net asset balance compared to the prior year ending net asset balance of \$8,745,266.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Utilities amended its budget one time. The amendment was done in May of 2011. The amendment was done to increase budgeted disbursements to cover unplanned disbursements, including disbursements associated with the Washington Street water main replacement.

The Utilities' receipts were \$1,059,351 more than budgeted, a variance of 10.2% and their total disbursements were \$63,971 less than budgeted, a variance of 0.6%.

During the year ended June 30, 2011, 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 \$18,124,973 (net of accumulated depreciation) at June 30, 2011. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2011 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

Long-Term Debt

At June 30, 2011, long-term debt outstanding was \$5,834,213. Debt decreased as a result of payment of revenue notes.

Additional information about the Utilities' long-term debt is presented in Note 14 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2012 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, 2011

	<u>Assets</u>		
	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 1,263,855	325,453	1,589,308
Certificates of deposit	250,000	-	250,000
Receivables:			
Customer	488,653	95,637	584,290
Unbilled usage	570,649	104,082	674,731
Due from water account	96,483	-	96,483
Accrued interest	668	-	668
Material and supplies inventory	384,561	112,064	496,625
Prepaid expenses	78,076	66,134	144,210
Total current assets	<u>3,132,945</u>	<u>703,370</u>	<u>3,836,315</u>
Restricted assets:			
Cash	224,698	596,510	821,208
Certificates of deposit	360,000	-	360,000
Accrued interest receivable	311	-	311
Total restricted assets	<u>585,009</u>	<u>596,510</u>	<u>1,181,519</u>
Total current and restricted assets	<u>3,717,954</u>	<u>1,299,880</u>	<u>5,017,834</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>1,531,397</u>	<u>4,630,847</u>
	<u>-</u>	<u>53,298</u>	<u>53,298</u>
Acquired since November 1, 1973, at cost	20,607,844	15,878,520	36,486,364
Less: accumulated depreciation, computed by the straight-line method	<u>11,689,507</u>	<u>6,725,182</u>	<u>18,414,689</u>
	<u>8,918,337</u>	<u>9,153,338</u>	<u>18,071,675</u>
Total property and equipment	<u>8,918,337</u>	<u>9,206,636</u>	<u>18,124,973</u>
Total assets	<u>\$ 12,636,291</u>	<u>10,506,516</u>	<u>23,142,807</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	\$ 978,551	74,668	1,053,219
Due to light account	-	96,483	96,483
Total current liabilities, payable from current assets	<u>978,551</u>	<u>171,151</u>	<u>1,149,702</u>
Long-term liabilities:			
Notes payable	<u>2,578,380</u>	<u>3,001,500</u>	<u>5,579,880</u>
Total long-term liabilities	<u>2,578,380</u>	<u>3,001,500</u>	<u>5,579,880</u>
Current liabilities, payable from restricted assets:			
Customer deposits	133,138	-	133,138
Accrued interest	15,988	7,950	23,938
Notes payable	<u>75,833</u>	<u>178,500</u>	<u>254,333</u>
Total current liabilities, payable from restricted assets	<u>224,959</u>	<u>186,450</u>	<u>411,409</u>
Total liabilities	<u>3,781,890</u>	<u>3,359,101</u>	<u>7,140,991</u>
Net assets:			
Invested in capital assets, net of related debt	6,248,136	6,018,686	12,266,822
Restricted for:			
Reserve account	360,050	410,060	770,110
Unrestricted	<u>2,246,215</u>	<u>718,669</u>	<u>2,964,884</u>
Total net assets	<u>8,854,401</u>	<u>7,147,415</u>	<u>16,001,816</u>
 Total liabilities and net assets	 \$ <u><u>12,636,291</u></u>	 <u><u>10,506,516</u></u>	 <u><u>23,142,807</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, 2011**

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating revenue:			
Metered sales	\$ 8,397,156	1,713,354	10,110,510
Other sales	38,690	-	38,690
Other revenue	56,656	7,330	63,986
Cut-off notice fee	7,097	1,490	8,587
Sewer and solid waste service fee	14,877	3,123	18,000
Penalty charges and bad debt recoveries	30,192	6,338	36,530
Total operating revenue	<u>8,544,668</u>	<u>1,731,635</u>	<u>10,276,303</u>
Operating expenses:			
Power, pumping and treatment plant	6,225,591	771,303	6,996,894
Transmission and distribution	735,973	670,778	1,406,751
General and administration	1,071,700	224,973	1,296,673
Total operating expenses	<u>8,033,264</u>	<u>1,667,054</u>	<u>9,700,318</u>
Net operating income	<u>511,404</u>	<u>64,581</u>	<u>575,985</u>
Non-operating revenue:			
Interest income	3,699	3,465	7,164
Interest income - restricted	10,403	3,999	14,402
Gain on sale of assets	3,965	15,259	19,224
Total other revenue	<u>18,067</u>	<u>22,723</u>	<u>40,790</u>
Non-operating expenses:			
Interest expense - restricted	106,965	99,100	206,065
Banking fees - restricted	450	1,738	2,188
Total other expenses	<u>107,415</u>	<u>100,838</u>	<u>208,253</u>
Change in net assets	<u>422,056</u>	<u>(13,534)</u>	<u>408,522</u>
Net assets, beginning of year, before restatement	9,430,259	6,117,681	15,547,940
Restatement of beginning net assets	(684,993)	830,347	145,354
Net assets, beginning of year, as restated	<u>8,745,266</u>	<u>6,948,028</u>	<u>15,693,294</u>
Residual equity transfer	(212,921)	212,921	-
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Net assets end of year	<u>\$ 8,854,401</u>	<u>7,147,415</u>	<u>16,001,816</u>

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, 2011

	Electric	Water	Total
Cash flow from operating activities:			
Cash received from customers and users	\$ 8,966,067	2,360,750	11,326,817
Cash received from other revenues	3,965	3,759	7,724
Cash paid to employees for services	(1,011,512)	(714,262)	(1,725,774)
Cash paid to suppliers	(6,784,338)	(1,198,452)	(7,982,790)
Net cash provided (used) by operating activities	1,174,182	451,795	1,625,977
Cash flow from noncapital financing activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Residual equity transfer	(212,921)	212,921	-
Net cash provided (used) by noncapital financing activities	(312,921)	212,921	(100,000)
Cash flow from capital and related financing activities:			
Principal paid on notes payable	(440,000)	(296,000)	(736,000)
Interest paid on notes payable	(109,538)	(99,840)	(209,378)
Cash paid for banking fees on notes payable	(450)	(1,738)	(2,188)
Purchase of property and equipment	(581,475)	(547,897)	(1,129,372)
Proceeds from sale of property and equipment	3,965	3,759	7,724
Net cash provided (used) by capital activities	(1,127,498)	(941,716)	(2,069,214)
Cash flow from investing activities:			
Proceeds from sale of investments	442,000	600,000	1,042,000
Interest on investments	14,347	7,546	21,893
Net cash provided (used) by investing activities	456,347	607,546	1,063,893
Net change in cash	190,110	330,546	520,656
Cash and cash equivalents at beginning of year	1,298,443	591,417	1,889,860
Cash and cash equivalents at end of year	\$ 1,488,553	921,963	2,410,516

(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, 2011

	Electric	Water	Total
Cash flow from operating activities:			
Operating income	\$ 511,404	64,581	575,985
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	615,529	427,655	1,043,184
Bond premium and issuance cost amortization	13,691	-	13,691
Changes in assets and liabilities:			
(Increase) decrease in due from other accounts	29,220	(29,220)	-
(Increase) decrease in accounts receivable	(28,689)	29,115	426
(Increase) decrease in unbilled usage	38,742	815	39,557
(Increase) decrease in inventories	(13,959)	(5,407)	(19,366)
(Increase) decrease in prepaid expense	2,163	(866)	1,297
Increase (decrease) in customer deposits	8,087	-	8,087
Increase (decrease) in accounts payable and accrued expenses	(2,006)	(34,878)	(36,884)
Net cash provided (used) by operating activities	1,174,182	451,795	1,625,977
Cash flow from noncapital financing activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Residual equity transfer	(212,921)	212,921	-
Net cash provided (used) by noncapital financing activities	(312,921)	212,921	(100,000)
Cash flow from capital and related financing activities:			
Principal paid on notes payable	(440,000)	(296,000)	(736,000)
Interest paid on notes payable	(109,538)	(99,840)	(209,378)
Cash paid for banking fees on notes payable	(450)	(1,738)	(2,188)
Purchase of property and equipment	(581,475)	(547,897)	(1,129,372)
Proceeds from sale of property and equipment	3,965	3,759	7,724
Net cash provided (used) by capital activities	(1,127,498)	(941,716)	(2,069,214)

(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, 2011

	Electric	Water	Total
Cash flow from investing activities:			
Proceeds from sale of investments	442,000	600,000	1,042,000
Interest on investments	14,347	7,546	21,893
Net cash provided (used) by investing activities	456,347	607,546	1,063,893
Net change in cash	190,110	330,546	520,656
Cash and cash equivalents at beginning of year	1,298,443	591,417	1,889,860
Cash and cash equivalents at end of year	\$ 1,488,553	921,963	2,410,516
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 1,263,855	325,453	1,589,308
Restricted assets:			
Customer deposits	133,138	-	133,138
Notes payable retirement	91,560	186,450	278,010
Water reserve	-	410,060	410,060
Total cash and cash equivalents at end of year	\$ 1,488,553	921,963	2,410,516

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, 2011

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, 2011

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.

Due from and Due to Other Funds

During the course of its operations, the Utilities has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2011, balances of interfund amounts receivable or payable have been recorded.

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2011

Note 1 – Significant Accounting Policies (Continued)

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.

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 82.65% and 17.35% 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.

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 September 13, 2011, the date which the statements were available to be issued.

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

**Notes to Financial Statements (Continued)
June 30, 2011**

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.

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, 2011

Note 2 – Property and Equipment Accounting Policies (Continued)

Detail of property and equipment at June 30, 2011 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	1,287,026
Production equipment	10,384,566	840,216
Distribution system	7,208,364	3,989,181
Construction in progress	492	290,187
Water tower	-	1,449,981
Machinery and equipment	772,317	773,659
Transportation equipment	150,727	-
Office furniture and fixtures	171,435	84,070
Consultant services	1,128,158	882,415
Steam supply line	42,667	-
Computer	311,211	-
Leasehold improvements	22,703	-
Total	\$ 20,607,844	15,878,520

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, 2011

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, 2011, services donated to the City totaled \$193,753 and \$19,737 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, 2011 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, 2011

Note 6 – Pension and Retirement Benefits (Continued)

Plan members are required to contribute 4.50% of their annual covered salary and the Utilities is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$122,979, \$112,356, and \$104,195 respectively, equal to the required contributions for each year. Plan member contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$76,929, \$70,900, and \$66,781 respectively.

Note 7 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$5,252,367 which represents 98.8% 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. A liability is recorded when incurred and has been computed based on rates of pay in effect at June 30, 2011.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2011. This amount based on June 30, 2011 wages and salaries was \$147,183.

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, 2011, there was no liability for sick leave accrued.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2011 is approximately \$232,969.

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

**Notes to Financial Statements (Continued)
June 30, 2011**

Note 9 – Cash Flow Information

Cash paid for interest and taxes for the year ended June 30, 2011 was as follows:

Interest	\$ 209,378
Taxes	-

Note 10 – 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 11 – 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, 2011 the amounts that are board designated are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Designated Net Assets</u>
Electric Fund	Light Improvement	\$ 406,035
Water Fund	Water Improvement	352,986
Electric Fund	Light Contingency	<u>451,401</u>
Total board designated cash and investments		\$ <u>1,210,422</u>

Note 12 – Allowance for Doubtful Accounts

As of June 30, 2011, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,155 and \$845, respectively.

Note 13 – 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, 2011

Note 14 – 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>
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>3,180,000</u>	<u>451,410</u>	<u>8,319</u>	<u>3,639,729</u>	<u>2,735,000</u>	<u>319,297</u>	<u>3,054,297</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, 2011**

Note 14 – 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 \$84,026 at June 30, 2011. The unamortized premium was \$3,239 at June 30, 2011. 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, 2011, the Utilities was in compliance with the revenue note provisions.

Note 15 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	<u>Water Revenue Notes</u>	<u>Electric Revenue Notes</u>	<u>Total</u>
Balance beginning of year	\$ 3,476,000	3,175,000	6,651,000
Decreases	<u>296,000</u>	<u>440,000</u>	<u>736,000</u>
Balance end of year	\$ <u>3,180,000</u>	<u>2,735,000</u>	<u>5,915,000</u>
Due within one year	\$ <u>306,000</u>	<u>455,000</u>	<u>761,000</u>

Note 16 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility employees, totaling \$22,161 during the year ended June 30, 2011.

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

Notes to Financial Statements (Continued)
June 30, 2011

Note 17 – 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, 2011 was \$100,000.

Note 18 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Water fund	Electric fund	<u>\$212,921</u>

Transfers are generally for the purpose of reimbursing for capital asset acquisitions.

Note 19 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Water	\$96,483

This balance results from cash being transferred from the electric fund to the water fund to cover amounts billed for water services prior to the billed amounts being received.

Note 20 – Commitments

The Utilities has entered into construction contracts totaling \$423,733 for a water main replacement project. As of June 30, 2011, costs of \$285,866 have been incurred on the projects. The remaining \$137,867 will be paid as work on the project progresses.

Note 21 – Contingencies

The Utilities has been subjected to allegations that they cut down a number of trees that belonged to adjoining land owners. The Utilities believes that the damages will be minor and no estimate of the loss can be made at this time.

Note 22 – Prior Period Adjustments

The Utilities retrospectively approved a transfer as of June 30, 2010 for \$830,347 from the electric fund to the water fund to cover disbursements that had previously been paid using cash from the electric fund. In addition to this adjustment, an adjustment was also made to accrue an additional \$145,354 for unbilled usage receivable as of June 30, 2010.

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, 2011

	Actual	Budgeted Amounts		Final to
		Original	Final	Actual Variance
Receipts	\$ 11,395,991	9,935,800	10,336,640	1,059,351
Disbursements	10,775,335	9,813,098	10,839,306	63,971
Net	620,656	122,702	(502,666)	1,123,322
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	1,889,860	2,320,830	2,720,207	(830,347)
Ending balances	\$ 2,410,516	2,343,532	2,117,541	292,975

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, 2011

	Proprietary Funds		
	Cash Basis	Enterprise	Accrual Basis
		Accrual Adjustments	
Revenues	\$ 11,395,991	(1,078,898)	10,317,093
Expenditures / expenses	10,775,335	(866,764)	9,908,571
Net	620,656	(212,134)	408,522
Other financing sources, net	(100,000)	-	(100,000)
Beginning net assets	1,889,860	13,803,434	15,693,294
Ending net assets	\$ 2,410,516	13,591,300	16,001,816

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, 2011

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 nine major classes of disbursements known as functions, not by fund. One of the nine 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 increased budgeted disbursements by \$1,026,208. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, 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,	
	2011	2010
Number of customers served:		
Electricity:		
Residential	3,224	3,192
Commercial	794	817
Electric heat	70	74
Vapor lights	113	116
Special commercial demand	30	30
Steam	-	1
Water	3,677	3,667
Kilowatt hours:		
Number of kilowatt hours purchased	78,364,471	77,027,608
Number of kilowatt hours produced	982,739	379,933
	79,347,210	77,407,541
Number of kilowatt hours sold	70,533,023	67,546,011
% of kilowatt hours sold to total produced and purchased	88.89%	87.26%
Number of kilowatt hours for export	305,603	161,778
Number of kilowatt hours for internal use	4,724,157	4,280,387
Number of kilowatt hours donated to city	2,841,483	2,955,426
	7,871,243	7,397,591
Gallons:		
Number of gallons pumped	585,919,000	598,517,000
Number of gallons billed	410,598,689	403,845,395
% of gallons billed to total pumped	70.08%	67.47%
Number of gallons for internal use	1,765,900	2,640,675
Number of gallons donated to city	2,055,455	2,376,125
	3,821,355	5,016,800

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.

2009	2008	2007	2006	2005
3,166	3,193	3,107	3,119	3,118
823	789	746	707	669
76	85	187	193	197
120	125	122	121	122
30	30	32	32	32
1	1	1	1	1
3,666	3,653	3,584	3,557	3,523
79,467,625	82,403,813	79,037,450	80,655,959	74,581,647
2,977,414	9,697,764	4,567,281	92,474	1,098,036
<u>82,445,039</u>	<u>92,101,577</u>	<u>83,604,731</u>	<u>80,748,433</u>	<u>75,679,683</u>
70,015,683	73,696,416	71,165,343	70,901,276	66,625,233
84.92%	80.02%	85.12%	87.81%	88.04%
70,643	4,324,914	2,047,516	-	-
4,244,158	4,183,565	4,410,334	4,751,883	5,244,270
3,006,871	2,949,411	2,995,590	2,895,695	2,746,554
<u>7,321,672</u>	<u>11,457,890</u>	<u>9,453,440</u>	<u>7,647,578</u>	<u>7,990,824</u>
571,562,000	564,416,000	582,580,100	645,262,500	648,979,500
405,198,141	432,257,918	437,794,600	468,899,618	503,789,739
70.89%	76.58%	75.15%	72.67%	77.63%
1,796,175	1,918,675	1,923,224	1,598,851	1,692,676
2,751,678	2,792,643	3,598,129	3,159,043	3,327,028
<u>4,547,853</u>	<u>4,711,318</u>	<u>5,521,353</u>	<u>4,757,894</u>	<u>5,019,704</u>

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

Schedule of Net Asset Detail
June 30, 2011

	Electric	Water	Total
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 639,795	8,185	647,980
Salaries and wages	150,834	66,483	217,317
Payroll and withholding taxes	39,077	-	39,077
Sales tax payable	51,099	-	51,099
Sewer and trash payable	97,746	-	97,746
 Total	 \$ 978,551	 74,668	 1,053,219

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, 2011

Assets				
	Balance June 30, 2010	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2011
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
	<u>3,099,450</u>	<u>-</u>	<u>-</u>	<u>3,099,450</u>
Total	\$ <u>3,099,450</u>	<u>-</u>	<u>-</u>	<u>3,099,450</u>
At cost:				
Land improvement	\$ 41,003	-	-	41,003
Buildings	374,201	-	-	374,201
Generating equipment	9,868,455	516,111	-	10,384,566
Distribution equipment	7,146,155	62,209	-	7,208,364
Construction in progress	4,765	492	(4,765)	492
Machinery and equipment	768,341	3,976	-	772,317
Transportation equipment	150,727	-	-	150,727
Office furniture and fixtures	171,435	-	-	171,435
Consultant services	1,128,158	-	-	1,128,158
Steam supply line	42,667	-	-	42,667
Computer	307,759	3,452	-	311,211
Leasehold improvements	22,703	-	-	22,703
	<u>20,026,369</u>	<u>586,240</u>	<u>(4,765)</u>	<u>20,607,844</u>
Total	\$ <u>20,026,369</u>	<u>586,240</u>	<u>(4,765)</u>	<u>20,607,844</u>

* 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
Estimated Life In Years	Balance June 30, 2010	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2011	Cost June 30, 2011
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	-
	\$ 3,099,450	-	-	3,099,450	-
15	\$ 25,100	1,445	-	26,545	14,458
30	209,740	11,692	-	221,432	152,769
10-30	3,688,357	328,413	-	4,016,770	6,367,796
30	4,742,297	227,685	-	4,969,982	2,238,382
	-	-	-	-	492
8-10	648,364	18,254	-	666,618	105,699
5	150,727	-	-	150,727	-
5-10	162,293	3,538	-	165,831	5,604
5	1,126,640	666	-	1,127,306	852
10-30	42,570	97	-	42,667	-
3-8	255,187	23,739	-	278,926	32,285
5	22,703	-	-	22,703	-
	\$ 11,073,978	615,529	-	11,689,507	8,918,337

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

Schedule of Net Asset Detail (Continued)
June 30, 2011

		Assets			
		Balance June 30, 2010	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2011
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
Total	\$	1,584,695	-	-	1,584,695
At cost:					
Buildings	\$	1,275,435	11,591	-	1,287,026
Edr treatment plant		6,149,810	-	-	6,149,810
Pumping and filtering equipment		800,794	39,422	-	840,216
Distribution system		3,839,754	149,427	-	3,989,181
Construction in progress		7,580	290,187	(7,580)	290,187
Water tower		1,438,281	11,700	-	1,449,981
Machinery and equipment		756,178	54,128	(36,647)	773,659
Land		131,975	-	-	131,975
Consultant services		876,319	6,096	-	882,415
Furniture and fixtures		79,644	4,426	-	84,070
Total	\$	15,355,770	566,977	(44,227)	15,878,520

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

See accompanying independent auditors' report.

Assets	Accumulated Depreciation				Depreciated
Estimated Life In Years	Balance June 30, 2010	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2011	Cost June 30, 2011
10-30	\$ 146,000	-	-	146,000	-
21-30	504,300	-	-	504,300	-
40	840,972	22,930	-	863,902	53,298
8-10	12,995	-	-	12,995	-
10	4,200	-	-	4,200	-
	\$ 1,508,467	22,930	-	1,531,397	53,298
10-30	\$ 805,394	28,673	-	834,067	452,959
40	1,709,924	153,745	-	1,863,669	4,286,141
25-40	312,048	27,807	-	339,855	500,361
40	1,496,630	98,549	-	1,595,179	2,394,002
	-	-	-	-	290,187
21-40	540,986	41,421	-	582,407	867,574
5-10	584,181	44,219	(36,647)	591,753	181,906
	-	-	-	-	131,975
5	855,569	4,769	-	860,338	22,077
10	52,372	5,542	-	57,914	26,156
	\$ 6,357,104	404,725	(36,647)	6,725,182	9,153,338

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

Expense Detail
June 30, 2011

	Actual	Operating Budget
Operating expenses:		
Electric Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 34,510	34,131
Power plant:		
Fuel, coal and oil	116,736	25,000
Purchased power	5,252,367	5,315,250
Production:		
Labor	246,417	236,400
Chemicals	21,463	7,500
Maintenance:		
Labor	82,808	62,250
Supplies	10,475	16,000
Other:		
Meal allowance	11	25
Miscellaneous	-	1,291
Depreciation	337,726	337,000
Freight	-	50
Miscellaneous contracted service	60,313	85,000
Permits	2,937	2,500
Renewable energy certificates	-	5,000
Repairs	2,556	2,000
Insurance	43,025	50,075
Bond issuance cost	14,247	15,418
Total power, pumping and treatment plant	\$ 6,225,591	6,194,890

(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, 2011

	Actual	Operating Budget
Operating expenses:		
Electric Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 34,510	34,132
Maintenance of line:		
Labor	197,495	231,685
Supplies	31,126	30,000
Maintenance of park and street:		
Lighting:		
Labor	7,473	7,585
Supplies	3,174	20,000
Maintenance of meters:		
Labor	41,573	22,535
Supplies	12,361	15,000
Removing and resetting meters	40,632	37,555
Other:		
Depreciation	254,063	263,000
Vehicle supplies	855	1,650
Vehicle repair	3,861	4,000
Mileage	14	150
Lodging	804	500
Meals allowance	6	150
Freight	-	50
Miscellaneous contracted services	54,504	50,000
Repairs	9,862	1,500
Insurance	43,025	50,075
Chemicals	-	200
Miscellaneous	274	1,161
Books and instructional materials	-	500
Education and training	361	1,000
	\$ 735,973	772,428
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, 2011

	Actual	Operating Budget
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 37,881	34,065
Maintenance of pumping equipment:		
Labor	260,451	270,000
Supplies	72,930	95,200
Outside analytical services	1,616	4,500
Pumping station expense	4,370	4,000
Insurance	39,146	41,850
Chemicals	106,883	110,000
Depreciation	223,733	220,000
Other pumping and treatment expenses:		
Permits	1,160	1,500
Education and training	906	1,200
Books and instructional materials	-	100
Freight	973	350
Miscellaneous	527	1,029
Mileage	475	800
Lodging	348	500
Meal allowance	92	200
Miscellaneous contracted services	14,737	27,000
Repairs	3,588	3,000
Vehicle repairs and supplies	1,487	2,600
Total pumping and treatment plant	\$ 771,303	817,894

(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, 2011

	Actual	Operating Budget
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 37,477	34,066
Maintenance of mains:		
Labor	213,407	176,400
Supplies	27,246	28,000
Maintenance of meters:		
Labor	13,560	7,850
Supplies	21,793	25,000
Removing and resetting meters	63,333	65,450
Maintenance of hydrants:		
Labor	10,415	10,500
Supplies	9,137	3,000
Other transmission and distribution:		
Vehicle expense	2,006	1,050
Depreciation	203,922	172,000
Permits	1,550	700
Education and training	573	1,250
Miscellaneous	4,650	4,906
Mileage	230	750
Lodging	392	750
Meal allowance	278	500
Freight	-	100
Miscellaneous contracted services	17,330	2,500
Repairs	1,029	2,500
Vehicle repairs	3,502	5,000
Analytical service	-	50
Insurance	38,948	41,850
	<u>\$ 670,778</u>	<u>584,172</u>
Total transmission and distribution	<u>\$ 670,778</u>	<u>584,172</u>

(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, 2011**

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds:		
General and administrative:		
Education and training	\$ 275	500
Advertising	3,090	2,500
Repairs	1,077	1,000
Business meals	193	550
Administrative salaries	157,066	150,246
Administrative supplies	6,810	7,000
Trustee salaries	7,200	7,200
Accounting and collecting labor	177,849	188,960
Computer maintenance and supplies	21,372	22,000
Maintenance agreements	7,520	10,600
Bank charges	5,818	6,000
Courtesy	1,940	1,800
Insurance	17,277	17,400
Dues, assessments and subscriptions	20,804	27,600
Meter reading wages	68,917	73,660
Meter reading supplies	281	350
Provision for doubtful accounts	42,305	37,000
Printing	5,030	5,100
First aid supplies	8	100
Postage	19,894	24,000
Telephone	16,046	16,300
Contractual services	10,988	10,000
Professional fees	24,600	24,800
Payroll tax expense	132,677	133,600
Pension expense (IPERS)	122,979	118,635
Group insurance	310,320	299,795
Mileage	2,241	3,000
Transportation and vehicle expense	31,662	28,100
Options 2000	30,070	44,000

(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, 2011

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	9,957	8,000
Safety program	2,015	3,335
Miscellaneous	2,093	3,969
Lodging	127	1,500
Drug testing	432	600
Economic development	12,000	10,500
Depreciation	23,740	20,500
 Total general and administrative	 \$ 1,296,673	 1,310,200
 Allocated as follows:		
Electric Fund	\$ 1,071,700	
Water Fund	224,973	
 Total as above	 \$ 1,296,673	

* 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, 2011

Water Revenue Note Issued December 1, 1999			Electric Revenue Note Issued May 20, 2009		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	
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		\$ 3,180,000		\$	2,735,000

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, 2011, and have issued our report thereon dated September 13, 2011. 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 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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-11 and II-B-11 to be material weaknesses.

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-C-11 and II-D-11 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 the Utilities' operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 officials, employees and citizens of Mt. Pleasant, 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.

TDE&T Financial Group, P.C.

Mt. Pleasant, Iowa
September 13, 2011

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

Schedule of Findings
Year Ended June 30, 2011

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 net asset breakdown.
2. Significant deficiencies and material weaknesses 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, 2011

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-11 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-11 Estimate for Unbilled Usage Receivables – During the audit, we determined that the estimate for unbilled usage receivables required a material adjustment.

Recommendation – The Utilities should review the underlying assumptions used to determine the estimate for unbilled usage receivables and determine if these assumptions should be adjusted in the future.

Response – We will review the underlying assumptions used to determine the estimate for unbilled usage receivables.

Conclusion – Response accepted.

II-C-11 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.

(continued)

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

Schedule of Findings (Continued)
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements (Continued):

Internal Control Deficiencies:

II-D-11 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, 2011

Part III: Other Findings Related to Required Statutory Reporting:

III-A-11 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2011 did not exceed the amount budgeted.

III-B-11 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-C-11 Travel Expense – No expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

III-D-11 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>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and software maintenance	\$ 5,919
Washington Electric Service owners Eugene and Deidre Zehr, father and mother-in-law of employee	Electrical supplies and contractual services	\$ 14,528
Donna Stott, spouse of employee	Cookies for school tours	\$ 24
Reynolds Motors, Inc. owner Earl Reynolds father-in-law of employee	Truck tires	\$ 1,690

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Donna Stott do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory, Washington Electric Service, and Reynolds Motors, Inc. may represent a conflict of interest as defined in Chapter 362.5(3)(j) of the Code of Iowa.

Recommendation – The Municipal Utilities should consult legal counsel to determine the disposition of this matter.

Response – We will consider consulting legal counsel.

Conclusion – Response accepted.

(continued)

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

Schedule of Findings (Continued)
Year Ended June 30, 2011

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

III-E-11 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-11 Utility Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The Utility Council went into closed session several times throughout the year. However, the minutes did not always document the specific exemption under Chapter 21 of the Code of Iowa, commonly known as the open-meetings law that allowed the Council to go into closed session. In other instances, the minutes referred to an incorrect exemption under Chapter 21.

The Utility Council minutes do not document that no final actions were taken while they were in closed session. Chapter 21 of the Code of Iowa requires that final actions shall be taken in an open session.

Two or more claims made by the same vendor are often consolidated in the publication of Utility Council minutes. This is allowed only if the number of claims consolidated and the total consolidated amount is listed. However, the Council minutes do not list the number of claims consolidated as required by Chapter 372.13 of the Code of Iowa.

Recommendation – The Utilities should comply with Chapter 21 of the Code of Iowa as required for closed sessions and with Chapter 372.13 for the publication of Utility Council minutes.

Response – We will comply with the Code requirements for closed sessions and the publication of minutes.

Conclusion – Response accepted.

III-G-11 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.

III-H-11 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

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

Staff

This audit was performed by:

Tom L. Holtkamp, CPA, Principal
Jaime M. Ackles, CPA, Senior Staff Accountant