

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORTS
FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011**

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

TABLE OF CONTENTS

	Page
OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2
BASIC FINANCIAL STATEMENTS	Exhibit
Statements of Net Assets	A 4
Statements of Revenue, Expenses and Changes in Net Assets	B 6
Statements of Cash Flows	C 7
Notes to Financial Statements	8
SUPPLEMENTARY INFORMATION	Schedule
Schedules of Expenses	1 16
Statistical Reports and Other Information	2 18
OTHER REPORTS	
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 <i>Government Auditing Standards</i>	19
Schedule of Findings	21

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**OFFICIALS
JUNE 30, 2012**

Name	Position	Term Expires	Insurance Coverage
GOVERNING BOARD-			
Richard Kohler	Chairman	12/31/14	10,000
Terry Schneider	Trustee	12/31/16	10,000
Lynne Don Carlos	Trustee	12/31/12	10,000
OTHERS-			
Duane Armstead	General Manager		10,000
Rebecca Haase	City Clerk/Treasurer		40,000

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Certified Public Accountants

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Steven M. Povich, C.P.A.
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Dwain E. Wulf, C.P.A.
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Geoffrey F. Schnathorst, C.P.A.
Catherine T. Kellogg, C.P.A.

INDEPENDENT AUDITORS' REPORT

Greenfield Municipal Utilities
Water System
Greenfield, Iowa

We have audited the accompanying statements of net assets of the business-type activities and each major fund of the Water System department of Greenfield Municipal Utilities, a component unit of the City of Greenfield, Iowa, as of June 30, 2012 and 2011, which collectively comprise the Water System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinions.

As described in Note 1, the financial statements of the Water System department of Greenfield Municipal Utilities, are intended to present the respective financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Greenfield, Iowa, that is attributable to the transactions of the Water System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Water System department of Greenfield Municipal Utilities, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the Water System's internal control over financial reporting and on 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 is important in assessing the results of our audit.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water System's financial statements as a whole. The supplementary information contained on Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedules of expenses on Schedule 1 are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on Schedule 1 is fairly stated in all material respects in relation to the financial statements as a whole. The statistical reports and other information on Schedule 2 have not been subjected to audit procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

October 31, 2012

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

BASIC FINANCIAL STATEMENTS

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

ASSETS	2012	2011	Increase (Decrease)
CURRENT ASSETS:			
Cash and Equivalents	\$ 492,959	\$ 49,787	\$ 443,172
Accounts Receivable - Customers	80,629	57,777	22,852
Inventories - Materials and Supplies	44,062	39,609	4,453
Accrued Interest Receivable	403	-	403
Prepaid Expenses	22,385	18,465	3,920
Deferred Bond Issue Costs, Net of Amortization	<u>2,283</u>	<u>-</u>	<u>2,283</u>
Total Current Assets	642,721	165,638	477,083
RESTRICTED ASSETS:			
Investment in Certificates of Deposit	65,850	-	65,850
PROPERTY AND EQUIPMENT:			
Production and Treatment Plant	1,550,963	1,550,963	-
Transmission System	945,444	919,115	26,329
Distribution System	2,884,119	2,865,175	18,944
Vehicles, Tools and Equipment	<u>201,258</u>	<u>189,375</u>	<u>11,883</u>
Total Cost	5,581,784	5,524,628	57,156
Accumulated Depreciation	<u>(3,150,647)</u>	<u>(3,024,721)</u>	<u>(125,926)</u>
Cost Less Depreciation	2,431,137	2,499,907	(68,770)
Construction in Progress	<u>133,158</u>	<u>-</u>	<u>133,158</u>
Total Property and Equipment, Net	2,564,295	2,499,907	64,388
OTHER NONCURRENT ASSETS:			
Deferred Bond Issue Costs, Net of Amortization	9,418	-	9,418
	<u>\$ 3,282,284</u>	<u>\$ 2,665,545</u>	<u>\$ 616,739</u>

(Continued)

See Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

LIABILITIES	2012	2011	Increase (Decrease)
CURRENT LIABILITIES:			
Accounts Payable - Vendors	\$ 29,462	\$ 17,314	\$ 12,148
Sales and Use Tax Payable	3,513	2,512	1,001
Accrued Liabilities -			
Salaries and Wages	4,374	12,077	(7,703)
Compensated Absences	50,077	46,484	3,593
Interest	5,566	870	4,696
Current Portion of Long-term Liabilities	<u>58,800</u>	<u>57,487</u>	<u>1,313</u>
Total Current Liabilities	151,792	136,744	15,048
NONCURRENT LIABILITIES:			
Revenue Bonds Payable	670,000	-	670,000
Payable to the City of Greenfield	241,936	280,736	(38,800)
Promissory Note Payable	<u>20,000</u>	<u>40,000</u>	<u>(20,000)</u>
Total Noncurrent Liabilities	931,936	320,736	611,200
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	2,036,687	2,124,196	(87,509)
Restricted for Debt Covenants	71,271	-	71,271
Unrestricted	<u>90,598</u>	<u>83,869</u>	<u>6,729</u>
Total Net Assets	2,198,556	2,208,065	(9,509)
	<u>\$ 3,282,284</u>	<u>\$ 2,665,545</u>	<u>\$ 616,739</u>

See Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012		2011		Increase (Decrease)
	Amount	Percent	Amount	Percent	
OPERATING REVENUE:					
Residential Sales	\$ 347,115	53.4	\$ 273,748	50.5	\$ 73,367
Commercial Sales	123,196	19.0	89,816	16.5	33,380
Industrial Sales	20,082	3.1	20,369	3.8	(287)
Sales to SIRWA	99,789	15.4	101,713	18.7	(1,924)
Sales to Fontenelle	32,126	4.9	38,885	7.2	(6,759)
Sales to City	10,446	1.6	6,854	1.3	3,592
Plant Hydrant Water Sales	535	0.1	305	0.1	230
Bad Debt Collections	822	0.1	127	-	695
Connections and Reconnections	3,025	0.5	3,475	0.6	(450)
Other Operating Revenue	<u>12,168</u>	1.9	<u>7,705</u>	1.4	<u>4,463</u>
Total Operating Revenue	649,304	100.0	542,997	100.0	106,307
OPERATING EXPENSES:					
Plant Operations	212,295	32.8	180,705	33.4	31,590
Plant Maintenance	45,448	7.0	52,148	9.6	(6,700)
Distribution Operations	135,509	20.9	126,666	23.3	8,843
Distribution Maintenance	69,903	10.8	77,865	14.3	(7,962)
Accounting and Collecting	76,818	11.8	74,017	13.6	2,801
Administrative Expenses	105,016	16.2	95,158	17.5	9,858
Bad Debts	1,579	0.2	1,829	0.3	(250)
Depreciation	<u>125,926</u>	19.4	<u>123,029</u>	22.7	<u>2,897</u>
Total Operating Expenses	<u>772,494</u>	119.1	<u>731,417</u>	134.7	<u>41,077</u>
Operating Earnings (Loss)	(123,190)	(19.1)	(188,420)	(34.7)	65,230
NONOPERATING REVENUE (EXPENSE):					
Contributions-in-Aid of Construction	70,964	10.9	116,379	21.4	(45,415)
Interest Income	403	0.1	122	-	281
Interest Expense	(11,621)	(1.8)	(10,441)	(1.9)	(1,180)
Miscellaneous Income	<u>3,392</u>	0.5	<u>4,646</u>	0.9	<u>(1,254)</u>
Total Nonoperating Revenue	<u>63,138</u>	9.7	<u>110,706</u>	20.4	<u>(47,568)</u>
Income (Loss) Before Transfers	(60,052)	(9.4)	(77,714)	(14.3)	17,662
TRANSFERS IN (OUT):					
Payment to City	-		(10,300)		10,300
From Electric System	<u>50,543</u>		<u>234,423</u>		<u>(183,880)</u>
Change in Net Assets	(9,509)		146,409		(155,918)
Total Net Assets, Beginning	2,208,065		2,061,656		146,409
Total Net Assets, Ending	<u>\$ 2,198,556</u>		<u>\$ 2,208,065</u>		<u>\$ (9,509)</u>

See Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 615,209	\$ 530,465
Payments to Suppliers	(304,322)	(322,432)
Payments to Employees, Wages and Benefits	(341,579)	(312,536)
Other Receipts	14,631	11,781
Net Cash from Operating Activities	<u>(16,061)</u>	<u>(92,722)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers from Electric	50,543	234,423
Payment to City	-	(10,300)
Net Cash from Noncapital Financing Activities	<u>50,543</u>	<u>224,123</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contribution-in-Aid of Construction	70,965	116,379
Purchase or Construction of Capital Assets	(190,314)	(140,474)
Revenue Bond Proceeds, Net	655,855	-
Principal Payments on Promissory Note	(20,000)	(20,000)
Principal Payments on Loan Payable to the City of Greenfield	(37,487)	(36,870)
Payment Due to City	-	(13,400)
Interest Paid	(4,479)	(10,441)
Net Cash from Capital and Related Financing Activities	<u>474,540</u>	<u>(104,806)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale of Investment	-	23,000
Debt Reserve Certificates of Deposit, Net Purchased	(65,850)	-
Interest Received	-	142
Net Cash from Investing Activities	<u>(65,850)</u>	<u>23,142</u>
Net Change in Cash and Equivalents	443,172	49,737
Cash and Equivalents, Beginning of Year	49,787	50
Cash and Equivalents, End of Year	<u>\$ 492,959</u>	<u>\$ 49,787</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES:		
Operating Earnings (Loss)	\$ (123,190)	\$ (188,420)
Adjustments to Reconcile Operating Earnings (Loss) to Net Cash from Operating Activities -		
Depreciation Noncash Expense	125,926	123,029
Miscellaneous Income Received	3,389	4,646
Change in Operating Assets and Liabilities -		
Accounts Receivable (Increase) Decrease	(22,852)	(5,395)
Inventories (Increase) Decrease	(4,453)	2,490
Prepaid Expenses (Increase) Decrease	(3,920)	(253)
Deficit in Cash and Equivalents Increase (Decrease)	-	(32,442)
Accounts Payable Increase (Decrease)	12,148	(2,092)
Sales Tax Payable Increase (Decrease)	1,001	351
Other Accrued Liabilities Increase (Decrease)	(4,110)	5,364
Total Adjustments	<u>107,129</u>	<u>95,698</u>
Net Cash from Operating Activities	<u>\$ (16,061)</u>	<u>\$ (92,722)</u>

See Notes to Financial Statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General -

Greenfield Municipal Utilities (GMU) is governed by a three-member Board of Trustees that is appointed by the Mayor of Greenfield and approved by the City Council. GMU operates and manages an electric system and water system.

GMU provides electric and water service to a diverse base of residential, commercial and industrial customers, primarily within the boundaries of the City. The Trustees exercise all oversight responsibility including the establishment of service rates, equitable allocation of joint expenses and books of account for each utility system.

The accompanying financial statements include only the activities of the Water System. The financial activities of the Electric System are presented and reported in separate financial statements. The significant accounting principles and policies utilized are described below.

B. Reporting Entity -

GMU is required to consider if it has oversight responsibility or control over any other legal entity. Criteria specified by GASB for determining the scope of such oversight include: (1) financial interdependency, (2) selection of the governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters. In accordance with these criteria, GMU has been identified as being a component unit of, but legally separate from, the City of Greenfield (the City), and does not have component units itself.

C. Basis of Presentation -

These financial statements are presented in conformity with generally accepted accounting principles (GAAP) accepted in the United States of America as applied to enterprise funds of governmental units. GMU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The accounts of the Water System are organized on the basis of funds, each of which is considered to be a separate accounting entity. Enterprise funds are used to account for the amount by which cost or expenses of providing goods or services to the public are offset by revenue from the sale of such goods or services. Separate funds are utilized to account for restricted assets, construction projects and debt service all of which are combined to comprise the water system activities and financial statements.

The statement of net assets and statement of revenue and expenses and changes in net assets display information about the business-type activities of the Water System as a whole. The statement of net assets displays the assets and liabilities with the difference reported as net assets. Net assets are reported in three components as follows:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, notes or other debt that are attributable to the acquisition, construction or improvement of those assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consists of all other net assets, including designated, that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”. Any designated net assets included may be redesignated at any time by board action.

Amounts shown as restricted net assets and the purpose of the restriction are as follows:

	2012	2011
Debt Service Sinking Fund	\$ 5,421	\$ -
Debt Service Reserve Fund	<u>65,850</u>	<u>-</u>
Total	<u>\$ 71,271</u>	<u>\$ -</u>

In addition, \$451,426 of unexpended cash remaining from issuance of construction debt is included in the category *Invested in Capital Assets, Net of Related Debt*.

D. Measurement Focus and Basis of Accounting -

Measurement focus refers to what types of resources are reported and basis of accounting refers to when revenues, expenditures and expenses, and the related assets or liabilities, are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of the measurement made, regardless of the measurement focus applied.

GMU uses the flow of economic resources measurement focus and the accrual basis of accounting to determine net income, cash flows, and financial position, similar to businesses in the private sector. Accordingly, revenues are recognized when earned, except that unbilled revenues for customer usage since the last meter reading to the end of the fiscal year (approximately five days) are not accrued. Expenses are recognized when the obligation is incurred.

When an expense can be paid using either restricted or unrestricted resources, GMU's policy is generally to first apply the expense to restricted resources when both restricted and unrestricted resources are available.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Greenfield Municipal Utilities' ongoing water operations. The principal operating revenues are charges to customers for sales and services. Operating expenses 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 nonoperating revenues and expenses.

E. Use of Estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash, Equivalents and Investments -

Unrestricted cash on hand and on deposit in checking or savings accounts and short-term certificates of deposits having a maturity date of no longer than three months are all considered cash and equivalents for financial reporting. Investments are stated at cost and consist of non-negotiable certificates of deposit held in the name of the fund which purchased the investment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Receivables and Credit Policies* -

Accounts receivable are uncollateralized customer obligations due under normal terms. Account balances are stated at the amount billed to the customer plus any unpaid penalties and are recorded in the period service is billed. Unpaid account balances older than the date first due are considered delinquent and are assessed a penalty. Management reviews all account balances that are delinquent and charges those amounts deemed to be uncollectible directly to operating expense.

H. *Inventories - Materials and Supplies* -

Inventories of materials and supplies are held for consumption and are stated at the lower of cost or market using the first-in, first-out method.

I. *Capital Assets* -

Capital assets (property, plant and equipment, including infrastructures) are valued at historical cost. The cost of system renewals and betterments includes engineering, project construction period interest and other related costs. Preliminary and construction costs, if any, of projects not yet in service are shown in the financial statements as construction in progress. GMU defines capital assets as assets with individual cost of more than \$500 and estimated useful lives of more than one year. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

Capital assets used in operations are depreciated using the straight-line method over the assets' estimated useful lives. Assets are depreciated using a half-year convention with no depreciation taken on asset construction in progress. The estimated useful lives by capital asset subcategory are as follows:

Treatment Plant and Structures	15-50 Years
Transmission System Improvements	33-50 Years
Distribution System Improvements	20-40 Years
Vehicles	5 Years
Tools and Shop Equipment	5-10 Years
Furniture and Office Equipment	5-10 Years

J. *Taxes* -

GMU is not liable for federal and state income taxes or taxes on its property, and makes no significant payments in-lieu-of taxes or other contributions to the City from the Water System.

NOTE 2 - POOLED CASH AND INVESTMENTS

GMU has generally pooled the cash, checking, and savings of the various funds and departments. All deposits at June 30, 2012, were entirely covered by federal depository insurance, or by a multiple financial institution collateral pool 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.

GMU 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 or savings accounts at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; 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 drainage districts.

NOTE 3 - PROPERTY AND EQUIPMENT

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

2012				
	Balance July 1,	Additions	Retirements	Balance June 30,
Capital Assets Being Depreciated -				
Production and Treatment Plant	\$ 1,550,963	\$ -	\$ -	\$ 1,550,963
Transmission System	919,115	26,329	-	945,444
Distribution System	2,865,175	18,944	-	2,884,119
Vehicles, Tools and Equipment	189,375	11,883	-	201,258
Total Cost	<u>\$ 5,524,628</u>	<u>\$ 57,156</u>	<u>\$ -</u>	<u>\$ 5,581,784</u>
Accumulated Depreciation for -				
Production and Treatment Plant	\$ 1,120,372	\$ 31,275	\$ -	\$ 1,151,647
Transmission System	256,605	18,208	-	274,813
Distribution System	1,489,107	62,758	-	1,551,865
Vehicles, Tools and Equipment	158,637	13,685	-	172,322
Total Accumulated Depreciation	<u>\$ 3,024,721</u>	<u>\$ 125,926</u>	<u>\$ -</u>	<u>\$ 3,150,647</u>
2011				
	Balance July 1,	Additions	Retirements	Balance June 30,
Capital Assets Being Depreciated -				
Production and Treatment Plant	\$ 1,533,510	\$ 17,453	\$ -	\$ 1,550,963
Transmission System	441,210	477,905	-	919,115
Distribution System	2,865,175	-	-	2,865,175
Vehicles, Tools and Equipment	189,389	12,193	12,207	189,375
Total Cost	<u>\$ 5,029,284</u>	<u>\$ 507,551</u>	<u>\$ 12,207</u>	<u>\$ 5,524,628</u>
Accumulated Depreciation for -				
Production and Treatment Plant	\$ 1,088,002	\$ 32,370	\$ -	\$ 1,120,372
Transmission System	243,543	13,062	-	256,605
Distribution System	1,425,729	63,378	-	1,489,107
Vehicles, Tools and Equipment	156,625	14,219	12,207	158,637
Total Accumulated Depreciation	<u>\$ 2,913,899</u>	<u>\$ 123,029</u>	<u>\$ 12,207</u>	<u>\$ 3,024,721</u>

NOTE 3 - PROPERTY AND EQUIPMENT (Continued)

Depreciation expense by asset group charged to operations is as follows:

	2012	2011
Production Plant	\$ 31,275	\$ 32,370
Transmission System	18,208	13,062
Distribution System	62,758	63,378
Vehicles, Tools and Equipment	13,685	14,219
Totals	<u>\$ 125,926</u>	<u>\$ 123,029</u>

NOTE 4 - COMPENSATED ABSENCES

Employees accumulate a limited amount of earned, but unused, vacation and sick leave hours for subsequent use or payment upon termination, retirement or death. Accrued compensated absences included in the financial statements represent the amount due for the hours accumulated at the employees' June 30, 2012 or 2011 rate of compensation.

NOTE 5 - LONG-TERM LIABILITIES

Annual debt service requirements to maturity are as follows:

Year Ending June 30	2004		2007		2012		Total Required		Total
	General Obligation (No Interest)	Loan from City Principal	Interest	Principal	Interest	Principal	Interest		
2013	\$ 20,000	\$ 38,800	\$ 8,255	\$ -	\$ 20,268	\$ 58,800	\$ 28,523	\$ 87,323	
2014	20,000	40,081	7,114	-	16,143	60,081	23,257	83,338	
2015	-	41,327	5,936	45,000	16,142	86,327	22,078	108,405	
2016	-	43,255	4,720	45,000	15,445	88,255	20,165	108,420	
2017	-	44,376	3,448	45,000	14,748	89,376	18,196	107,572	
2018	-	46,191	2,144	45,000	14,050	91,191	16,194	107,385	
2019	-	26,706	785	50,000	13,105	76,706	13,890	90,596	
2020	-	-	-	50,000	12,055	50,000	12,055	62,055	
2021	-	-	-	50,000	11,005	50,000	11,005	61,005	
2022	-	-	-	50,000	9,805	50,000	9,805	59,805	
2023 and After	-	-	-	290,000	26,857	290,000	26,857	316,857	
Totals	<u>\$ 40,000</u>	<u>\$ 280,736</u>	<u>\$ 32,402</u>	<u>\$ 670,000</u>	<u>\$ 169,623</u>	<u>\$ 990,736</u>	<u>\$ 202,025</u>	<u>\$1,192,761</u>	

NOTE 5 - LONG-TERM LIABILITIES (Continued)

A summary of long-term debt transactions for the years ended June 30, 2012 and 2011 is as follows:

2012					
	Balances July 1	Issued	Retired	Balances June 30	Due Within One Year
2004 General Obligation	\$ 60,000	\$ -	\$ 20,000	\$ 40,000	\$ 20,000
2007 Loan from City	318,223	-	37,487	280,736	38,800
2012 Revenue Bonds	-	670,000	-	670,000	-
	<u>\$ 378,223</u>	<u>\$ 670,000</u>	<u>\$ 57,487</u>	<u>\$ 990,736</u>	<u>\$ 58,800</u>
2011					
	Balances July 1	Issued	Retired	Balances June 30	Due Within One Year
2004 General Obligation	\$ 80,000	\$ -	\$ 20,000	\$ 60,000	\$ 20,000
2007 Loan from City	355,093	-	36,870	318,223	37,487
	<u>\$ 435,093</u>	<u>\$ -</u>	<u>\$ 56,870</u>	<u>\$ 378,223</u>	<u>\$ 57,487</u>

On June 10, 2004, the City of Greenfield issued a general obligation promissory note for \$200,000 which is being repaid by the Water System. Proceeds from this note were deposited to the benefit of the Water System to provide financing for construction of a water tower. The note is noninterest bearing, with monthly payments of \$1,666 beginning July 14, 2004 and continues through July 2014.

During 2007, the Water System agreed to repay \$369,409 to the City for costs of water distribution system improvements included in the City's debt issued to finance the Public Square Improvement project. The loan bears interest at a rate of 2.94 percent. Loan principal and interest is payable annually beginning June 1, 2010 and continues through June 1, 2019.

GMU has pledged future water customer net revenue to repay \$670,000 of revenue bonds issued February 29, 2012. Proceeds from these bonds provided financing for constructing improvements to the Municipal Waterworks System. The bonds mature serially from June 1, 2015 through June 1, 2027, with interest at various rates from 1.55 to 3.10 percent per annum. Interest is payable semiannually on June 1 and December 1 beginning December 1, 2012. The bonds are callable on or after June 1, 2018, at par plus accrued interest.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

- A. The debt 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 activity.
- B. Sufficient cash transfers shall be made to a bond and interest account for the purpose of making the next annual principal and interest payment when due. As of June 30, 2012, the water bond and interest sinking fund requirement was satisfied.
- C. Additional cash transfers shall be made to a bond reserve account until such account reaches \$65,850. This amount is restricted for the purpose of paying principal and interest whenever, for any reason, the funds on deposit in the sinking fund are insufficient to pay such principal and interest when due. As of June 30, 2012, the water bond reserve was satisfied by a specific certificate deposit.

NOTE 6 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.38 percent of their annual salary and the employer is required to contribute 8.07 percent of annual covered payroll. Contribution requirements are established by State statute. The Water System's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, was \$18,979, \$15,030, and \$12,460, respectively, which met the required contributions for each year.

NOTE 7 - DEFERRED COMPENSATION PLAN

GMU offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral to future years a portion of their current salary. The employee becomes eligible to withdraw funds upon termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in a separate third-party trust for the exclusive benefit of participants and their beneficiaries.

NOTE 8 - CONCENTRATIONS

The Water System provides water to customers in a specified service area in and around the City of Greenfield, Iowa. It grants credit to substantially all customers, all of whom are local businesses or residents. Sales to nonprofit or other municipal organizations for redistribution accounted for approximately 13 percent and 17 percent of the total operating revenue for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 - RISK MANAGEMENT

Greenfield 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, except for loss of infrastructure, are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the balance sheets.

NOTE 11 - COMMITMENTS

GMU has a contract for the Water System to provide water to the Southern Iowa Rural Water Association (SIRWA) over a forty-year period beginning June 1, 1982. The agreement stipulates that the water quantity sold is not to exceed 174 gallons per minute and 52,257,879 gallons per year. Metered water for 2012 and 2011 was 59,754,100 and 59,431,200 gallons, respectively.

NOTE 11 - COMMITMENTS (Continued)

GMU has a second contract for the Water System to provide water to the City of Fontanelle over a ten year period which began November 1, 2003. The agreement stipulates that the water quantity sold is not to exceed 120 gallons per minute and 20,000,000 gallons per year. Metered water for 2012 and 2011 was 13,621,400 and 16,290,000 gallons, respectively.

GMU has a contract for improvements to the Water treatment plant. Construction of the improvements was started during the current year and will be finished during the following year. The remaining amount of the contract to be finished is \$346,543 plus fees to be paid to the project management.

NOTE 12 - BUDGETS AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Greenfield City Council adopts an annual budget on the cash basis following required public notice and hearing for all City and component unit funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures and was amended increasing the original expense budget of \$857,050 to \$1,607,000 for debt service and construction project costs.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions or programs, not by fund. These functions are grouped as either governmental activities or business activities. The Water System budget is included as a part of the City and GMU combined business type activities budget.

A comparison of the actual water system activity, adjusted to the budgetary basis (cash receipts and disbursements), and the total budgeted amounts is as follows:

	Actual	Budget
Operating and Nonoperating Revenue - GAAP Basis	\$ 724,063	
Adjust For-		
Customer Charge Accruals	(22,852)	
Nonoperating Revenue Accruals	(403)	
Operating and Nonoperating Revenue - Budget Basis	<u>\$ 700,808</u>	<u>\$ 596,200</u>
Operating and Nonoperating Expenses - GAAP Basis	\$ 784,115	
Adjust for -		
Operating Expense Accruals	(13,735)	
Capital Outlay	190,314	
Depreciation	(125,926)	
Debt Payments	57,487	
Operating and Nonoperating Expenses - Budget Basis	<u>\$ 892,255</u>	<u>\$ 1,607,000</u>

NOTE 13 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2012, the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of, or disclosure in, the financial statements.

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

SUPPLEMENTARY INFORMATION

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULES OF EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012		2011		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Plant Operations -					
Salaries and Wages	\$ 59,004	9.2	\$ 54,627	10.2	\$ 4,377
Employer Payroll Taxes	4,915	0.8	6,023	1.1	(1,108)
Professional Fees	9,532	1.5	5,427	1.0	4,105
Insurance	13,116	2.0	12,206	2.2	910
Utilities and Communications	44,320	6.8	37,714	6.9	6,606
Chemicals	73,122	11.3	55,127	10.2	17,995
Water Testing	8,286	1.3	9,581	1.8	(1,295)
Total Plant Operations	<u>\$ 212,295</u>	32.8	<u>\$ 180,705</u>	33.4	<u>\$ 31,590</u>
Plant Maintenance -					
Pump Repairs	\$ 2,857	0.4	\$ 1,560	0.3	\$ 1,297
Supplies - Operating and Maintenance	29,915	4.6	34,546	6.4	(4,631)
Repairs Maintenance Services	12,676	2.0	16,042	3.0	(3,366)
Total Plant Maintenance	<u>\$ 45,448</u>	7.0	<u>\$ 52,148</u>	9.6	<u>\$ (6,700)</u>
Distribution Operations -					
Salaries and Wages	\$ 81,974	12.6	\$ 79,710	14.7	\$ 2,264
Employer Payroll Taxes	15,664	2.4	13,587	2.5	2,077
Group Insurance	37,021	5.7	33,343	6.1	3,678
Professional Fees	850	0.2	26	0.1	824
Total Distribution Operations	<u>\$ 135,509</u>	20.9	<u>\$ 126,666</u>	23.3	<u>\$ 8,843</u>
Distribution Maintenance -					
Vehicle Operating Expenses	\$ 10,899	1.7	\$ 9,015	1.7	\$ 1,884
Supplies - Operating and Maintenance	55,197	8.5	64,836	11.9	(9,639)
Repairs Maintenance Services	3,807	0.5	4,014	0.6	(207)
Total Distribution Maintenance	<u>\$ 69,903</u>	10.8	<u>\$ 77,865</u>	14.3	<u>\$ (7,962)</u>
Accounting and Collecting -					
Salaries and Wages	\$ 42,063	6.5	\$ 40,893	7.5	\$ 1,170
Employer Payroll Taxes	6,498	1.0	5,641	1.0	857
Group Insurance	18,070	2.8	16,900	3.1	1,170
Advertising and Notices	961	0.1	1,111	0.2	(150)
Supplies - Operating and Maintenance	5,615	0.9	6,586	1.2	(971)
Copier and Computer Maintenance	3,611	0.5	2,886	0.4	725
Total Accounting and Collecting	<u>\$ 76,818</u>	11.8	<u>\$ 74,017</u>	13.6	<u>\$ 2,801</u>

(Continued)

GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM

SCHEDULES OF EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012		2011		Increase (Decrease)
	Amount	Percent	Amount	Percent	
Administrative Expenses -					
Salaries and Wages	\$ 47,425	7.3	\$ 46,391	8.5	\$ 1,034
Employer Payroll Taxes	12,513	1.9	11,170	2.1	1,343
Group Insurance	9,090	1.4	8,425	1.6	665
Professional Fees	12,040	1.9	10,648	2.0	1,392
Insurance	12,963	2.0	12,183	2.2	780
Travel, Conferences and Dues	3,233	0.5	1,189	0.2	2,044
Utilities and Communications	2,204	0.3	2,085	0.4	119
Supplies - Operating and Maintenance	375	0.1	366	0.1	9
Economic Development	4,168	0.6	2,610	0.5	1,558
Use Tax Paid	1,001	0.2	91	-	910
Total Administrative Expenses	<u>\$ 105,012</u>	16.2	<u>\$ 95,158</u>	17.5	<u>\$ 9,854</u>
Bad Debts	<u>\$ 1,579</u>	0.2	<u>\$ 1,829</u>	0.3	<u>\$ (250)</u>
Depreciation Expense	<u>\$ 125,926</u>	19.4	<u>\$ 123,029</u>	22.7	<u>\$ 2,897</u>

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**STATISTICAL REPORTS AND OTHER INFORMATION
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012 (Unaudited)		2011 (Unaudited)		Increase (Decrease)
	Gallons	Percent	Gallons	Percent	
WATER PUMPED TO SYSTEM	154,051,000	100.0	155,605,000	100.0	(1,554,000)
UNBILLED:					
Greenfield Municipal Utilities	3,972,200	2.6	3,988,700	2.6	(16,500)
Free Water	-	-	-	-	-
Streets (Estimated)	85,000	0.1	95,000	0.1	(10,000)
Fire Department and Flushes (Estimated)	433,774	0.2	617,000	0.4	(183,226)
Accounted for as Break Leaks (Estimated)	<u>310,150</u>	0.2	<u>1,933,000</u>	1.3	<u>(1,622,850)</u>
Total Unbilled	<u>4,801,124</u>	3.1	<u>6,633,700</u>	4.3	<u>(1,832,576)</u>
Available for Sale	149,249,876	96.9	148,971,300	95.7	278,576
WATER SOLD	133,005,238	86.3	131,996,827	85.8	1,008,411
Line Loss	<u>16,244,638</u>	10.6	<u>16,974,473</u>	10.9	<u>(729,835)</u>
METER COUNT AT JUNE 30	<u>1,059</u>		<u>1,059</u>		
WATER USAGE RATES:					
Customer Charges per Meter per Month -					
Residential	19.00		15.00		
Rural Residential	23.00		19.00		
Commercial	21.00		17.00		
Rural Commercial	25.00		21.00		
Industrial	200.00		200.00		
Water Usage (per 1,000 Gallons)	4.65		3.40		
Effective	10/1/2011		3/1/2011		

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

OTHER REPORTS

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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*

Greenfield Municipal Utilities
Water System
Greenfield, Iowa

We have audited the financial statements of the business-type activities and each major fund of the Water System department of the Greenfield Municipal Utilities, a component unit of the City of Greenfield, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the Water System's basic financial statements, and have issued our report thereon dated October 31, 2012. 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

Management of the Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water System's internal control over financial reporting.

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 the Water System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over

financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are described in Part 2 of the accompanying Schedule of Findings as item 12-1A. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Water System's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water System. 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.

Management's responses to findings identified in our audit are described in the accompanying schedule of findings. While we expressed our conclusions on the responses, we did not audit such 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 trustees, management and other parties to whom the Greenfield Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

October 31, 2012

**GREENFIELD MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

PART 1: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Significant Deficiencies:

12-1A **Accurate Financial Reports** - We noted in the prior year that various accounting and reporting processes are delayed. Specifically, the accounts payable need to be reconciled to the general ledger monthly. During the current year, we noted that financial reports are now timely, but not yet accurate for these accruals. Lack of having correct financial information can impact management's ability to effectively maintain oversight of an organization. Critical areas such as financial analysis, budgetary control, cash flow, and compliance with various statutes can all be negatively impacted. Further, we believe that the lack of accurate management reports removes the important control function of management oversight necessary with limited segregation of duties. Although this problem did improve during the current year, it is not resolved to the extent to not continue this comment this year.

Recommendation - We suggest that steps be taken to ensure that the board receives accurate financial information on a regular basis. Specifically, accrual accounts need to be verified and reconciled monthly. We further recommend that the reports be developed to come from the new software as well as adding procedures to prepare work documentation in order to make proper monthly accounting accruals. This may require changing some work flow procedures or additional training on the new software. Once the reporting process is up to date, every effort must be made to maintain that status. Furthermore, we suggest that the Office Manager attend State Auditor seminars annually to further develop her knowledge of governmental unit accounting requirements.

Response - The Office Manager/City Clerk has limited previous experience of working in a governmental environment. Management believes this situation will continue to improve as more experience is acquired with the regular use of the software and further knowledge is gained of the governmental environment as well as training on additional monthly procedures.

Conclusion - Response accepted.

12-1B **Prior Year Findings** - In the prior year's Schedule of Findings, we had findings regarding timely bank account reconciliations, accurate posting and account coding, and timeliness of financial reports. These findings have been significantly improved during the current year.

Instances of Noncompliance:

No matters noted.

PART 2: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

12-2A **Official Depositories** - A resolution naming depositories for combined funds of Greenfield Municipal Utilities has been approved by the City Council and the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year by Greenfield Municipal Utilities. The depositories named and maximum deposit amounts authorized are as follows:

First National Bank	\$ 4,000,000
Union State Bank	4,000,000

12-2B **Certified Budget** – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual continuing appropriation. The Water Systems expenses during the year ended June 30, 2012, did not exceed the amount budgeted.

12-2C **Questionable Disbursements** - We noted no expenditures that we believe would constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

12-2D **Travel Expense** - No expenditures of Water System money for travel expenses of spouses of officials or employees were noted.

12-2E **Business Transactions** - Business transactions between the Greenfield Municipal Utilities Water Utility System and the Utilities' officials are immaterial and meet the guidelines of the Code of Iowa.

12-2F **Bond Coverage** - Surety bond coverage of officials and employees is in accordance with statutory provisions. However, we recommend the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations. See the page listing the "Officials" for individual bond coverage amounts.

12-2G **Minutes** - No transactions were found that we believe should have been approved in the minutes, but were not. The minutes were published within the 15 days required by Chapter 372.13(6) of the Code of Iowa. We did note, however, total receipts were not included in the published minutes.

12-2H **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

12-2I **Revenue Bonds and Notes** – No instances of noncompliance with the revenue bond and note resolutions were noted.