

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS, SUPPLEMENTAL
INFORMATION AND SCHEDULE OF FINDINGS

As of and for the year ended June 30, 2012

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

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GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

OFFICIALS
Year Ended June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kenneth Mutch	Trustee	June 2019
Dennis Brubaker	Trustee	June 2015
Harold Dole	Trustee	June 2017
Jeff Carson	Utilities Manager/Secretary	Indefinite
Mary Harken	A & S Manager/Treasurer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Grundy Center Municipal Utilities

I have audited the accompanying financial statements of the business type activities and each major fund of the Grundy Center Municipal Utilities as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Grundy Center Municipal Utilities' management. My responsibility is to express opinions on these financial statements based on my audit. The Municipal Utilities are a component unit of the City of Grundy Center, Iowa. The City is audited separately.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe that my audit provides a reasonable basis for my opinions.

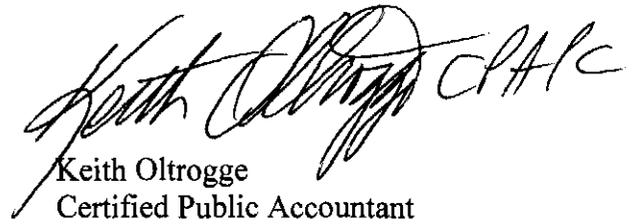
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of Grundy Center Municipal Utilities as of June 30, 2012 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 22, 2013 on my consideration of the Grundy Center Municipal Utilities' internal control over financial reporting and my 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 my 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 read in conjunction with this report in considering the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Grundy Center Municipal Utilities' basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 my audit of the basic 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 the U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grundy Center Municipal Utilities' basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 18 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.



Keith Oltrogge
Certified Public Accountant

January 22, 2013

GRUNDY CENTER MUNICIPAL UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2012

Grundy Center Municipal 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, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Revenues of the Utilities' business type activities increased 5%, or approximately \$234,000 from fiscal 2011 to fiscal 2012.
- Disbursements decreased 5%, or approximately \$274,000, in fiscal 2012 from fiscal 2011.
- The Utilities' total cash basis net assets decreased 2%, or approximately \$153,000 from June 30, 2011 to June 30, 2012.

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 Enterprise Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Enterprise Fund financial statements report the Utilities' operations in detail.

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 detailed information about each Enterprise Fund and the Utilities' indebtedness.

BASIS OF ACCOUNTING

The Utilities maintain their financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utilities' net assets. Over time, increases and decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

Fund Financial Statements

Proprietary funds account for the Utilities' Enterprise Funds. Enterprise Funds are used to report business type activities. The Utilities' maintains seven Enterprise Funds to provide separate information for the Electric and Telecommunications Funds, considered to be major funds of the Utility.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Utilities' cash balance decreased from a year ago, decreasing from \$7.436 million to \$7.283 million. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets

	Year Ended June 30,		
	2012	2011	2010
Receipts and Transfers:			
Program Receipts:			
Charges for service	\$ 4,459,915	\$ 4,517,900	\$ 4,354,264
General receipts:			
Unrestricted investment earnings	79,665	152,524	146,767
Other general receipts	518,473	153,515	215,997
Total Receipts	\$ 5,058,053	\$ 4,823,939	\$ 4,717,028
Disbursements	\$ 5,210,941	\$ 5,485,316	\$ 4,211,159
Increase (Decrease) in cash basis net assets	\$ -152,888	\$ -661,377	\$ 505,869
Cash basis net assets beginning of year	7,435,666	8,097,043	7,591,174
Cash Basis Net Assets End of Year	\$ 7,282,778	\$ 7,435,666	\$ 8,097,043

The Utilities' total receipts increased 5%, or approximately \$234,000. The total cost of all programs and services decreased approximately \$274,000, or 5% with no new programs or services added this year. The increase in receipts was the result of an increase in other revenues. The decrease in disbursements was primarily due to delayed equipment and improvement expenditures.

INDIVIDUAL MAJOR FUND ANALYSIS

The Operating and Maintenance Fund cash balance decreased \$63,461 to \$2,565,656, due to an increase in equipment and improvement expenditures.

The Improvement Fund cash balance decreased \$227,172 to \$2,118,163 due to the \$243,323 transfer to pay debt service.

The Power Source Fund cash balance increased \$3,704 from interest earned during fiscal year 2012. The Power Source Fund was established to provide funding future power supply needs to the City.

The Consumer's Deposit Fund cash balance increased from \$39,021 as of June 30, 2011 to \$39,392 as of June 30, 2012 due to consumer's deposits.

The Reserve Fund cash balance increased from \$231,979 to \$232,443 during fiscal year 2012 due to interest earned.

The Sinking Fund is used to record principal and interest payments on long-term debt. During fiscal year 2012, \$313,215 was transferred into the fund and then paid out. There is no cash balance maintained in the Sinking Fund.

The Communications Fund cash balance increased \$108,206 during fiscal year 2012 primarily due to an increase in the use of services.

BUDGETARY HIGHLIGHTS

The Utilities' receipts were \$1,209,915 more than budgeted. This was primarily due to the Utility receiving more in charges for service than anticipated.

Total disbursements were \$2,311,409 less than budgeted. This was primarily due to the Utility delaying equipment and improvement purchases.

DEBT ADMINISTRATION

At June 30, 2012, the Utilities had \$425,000 in long-term debt, compared to approximately \$700,000 last year, as shown below.

	<u>Outstanding Debt at Year-End</u>			
	June 30,			
	2012	2011	2010	2009
Revenue notes	\$425,000	\$700,000	\$965,000	\$1,215,000

Debt decreased as a result of regular payments on the notes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Grundy Center Municipal Utilities' appointed officials and management considered many factors when setting the fiscal year 2013 budget and fees charged for various services. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. Inflation has been modest here due, in part, to the slowing of the residential housing market and increases in energy prices in 2012.

These indicators were taken into account when adopting the budget for fiscal year 2013. Receipts are expected to increase approximately 18% and disbursements are expected to decrease approximately 3%. Decreases in equipment and capital improvements represent the largest decreases of disbursements. The Utility has added no new services to the 2013 budget.

If these estimates are realized, the Utilities' budgeted cash balance is expected to decrease approximately \$3,100,000 by the close of 2013.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Harken, 706 6th Street, Box 307, Grundy Center IA 50638.

BASIC FINANCIAL STATEMENTS

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
Year Ended June 30, 2012

	<u>Disbursements</u>	<u>Program Receipts Charges Services</u>
Functions/Programs:		
Business Type Activities:		
Operating and Maintenance Account	\$ 3,976,313	\$ 3,458,289
Sinking Fund Account	313,215	-
Improvement Account	500	-
Power Source Account	-	-
Consumers' Deposit Account	2,784	-
Reserve Account	-	-
Communications Account	943,129	1,001,626
	\$ 5,235,941	\$ 4,459,915
 Total		

General Receipts:

Unrestricted interest on investments
Miscellaneous

Total general receipts

Change in cash basis net assets
Cash basis net assets beginning of year

Cash Basis Net Assets End of Year

Cash Basis Net Assets:

Restricted:
 Expendable:
 Debt service
 Other purposes
Unrestricted

Total Cash Basis Net Assets

See notes to financial statements.

Net (Disbursements) Receipts
and Changes in Cash Basis
Net Assets

Business Type Activities

\$ -518,024
-313,215
-500
-
-2,784
-
58,497

\$ -776,026

\$ 79,665
543,473

\$ 623,138

\$ -152,888
7,435,666

\$ 7,282,778

\$ 425,000
39,392
6,818,386

\$ 7,282,778

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES –
CASH BASIS
PROPRIETARY FUNDS
ENTERPRISE FUNDS
As of and For the Year Ended June 30, 2012

	O & M	Sinking	Improvement
Operating Receipts:			
Charges for service	\$ 3,458,289	\$ -	\$ -
Miscellaneous	403,307	-	-
Total Operating Receipts	<u>\$ 3,861,596</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Disbursements:			
Business type activities	\$ 3,395,045	\$ -	\$ 500
Debt service	-	313,215	-
Capital outlay	581,268	-	-
Total Disbursements	<u>\$ 3,976,313</u>	<u>\$ 313,215</u>	<u>\$ 500</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ -114,717</u>	<u>\$ -313,215</u>	<u>\$ -500</u>
Non-Operating Receipts:			
Transfers in	\$ 25,000	\$ 313,215	\$ -
Interest on investments	51,256	-	16,651
Total Non-Operating Receipts	<u>\$ 76,256</u>	<u>\$ 313,215</u>	<u>\$ 16,651</u>
Excess of receipts over disbursements	\$ -38,461	\$ -	\$ 16,151
Operating transfers out	-	-	-243,323
Net change in cash balances	\$ -38,461	\$ -	\$ -227,172
Cash balances beginning of year	2,604,117	-	2,345,335
Cash Balances End of Year	<u>\$ 2,565,656</u>	<u>\$ -</u>	<u>\$ 2,118,163</u>
Cash Basis Fund Balances			
Reserved for consumers' deposits	\$ -	\$ -	\$ -
Reserved for debt service	-	-	235,000
Unreserved	2,565,656	-	1,883,163
Total Cash Basis Fund Balances	<u>\$ 2,565,656</u>	<u>\$ -</u>	<u>\$ 2,118,163</u>

See notes to financial statements.

Power Source	Consumers' Deposits	Reserve	Communi-cations	Total
\$ -	\$ -	\$ -	\$ 1,001,626	\$ 4,459,915
-	2,975	-	112,191	518,473
\$ -	\$ 2,975	\$ -	\$ 1,113,817	\$ 4,978,388
\$ -	\$ 2,784	\$ -	\$ 903,665	\$ 4,301,994
-	-	-	-	313,215
-	-	-	14,464	595,732
\$ -	\$ 2,784	\$ -	\$ 918,129	\$ 5,210,941
\$ -	\$ 191	\$ -	\$ 195,688	\$ -232,553
\$ -	\$ -	\$ -	\$ -	\$ 338,215
3,704	180	464	7,410	79,665
\$ 3,704	\$ 180	\$ 464	\$ 7,410	\$ 417,880
\$ 3,704	\$ 371	\$ 464	\$ 203,098	\$ 185,327
-	-	-	-94,892	-338,215
\$ 3,704	\$ 371	\$ 464	\$ 108,206	\$ -152,888
857,331	39,021	231,979	1,357,883	7,435,666
\$ 861,035	\$ 39,392	\$ 232,443	\$ 1,466,089	\$ 7,282,778
\$ -	\$ 39,392	\$ -	\$ -	\$ 39,392
-	-	-	190,000	425,000
861,035	-	232,443	1,276,089	6,818,386
\$ 861,035	\$ 39,392	\$ 232,443	\$ 1,466,089	\$ 7,282,778

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Grundy Center Municipal Utilities is a city municipal utility for the City of Grundy Center, Iowa. It has a separate governing body, the Board of Trustees, who are appointed for staggered six-year terms by the Mayor and approved by the City Council. The Department maintains its own system of books, records and accounts apart from the City. The City is audited separately.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Utilities. For the most part, the effect of inter-fund activity has been removed from this statement. Business type activities, which rely to a significant extent on fees and charges for services are reported separately.

The Statement of Activities and Net Assets presents the Utilities' non-fiduciary net assets. Net assets are reported in three categories:

Nonexpendable Restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Utility, including the Utilities' Permanent Fund.

Expendable 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 consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements-Separate financial statements are provided for the proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Department reports the following major proprietary funds:

Operating and Maintenance Account – The Operating and Maintenance Account is the general operating account. All user fees and other receipts that are not allocated to some other account are recorded in this account. Items paid from this account include general operating expenses, fixed charges and capital improvement costs that are not paid through other accounts.

Sinking Fund Account – The Sinking Fund Account records the payment of interest and principal on the Department's long-term debt.

Improvement Account – This account is for purchases of major capital improvements.

Power Source Account – The Power Source Account is established to accumulate funds to secure an interest in available power from another supply source for future needs of the City.

Consumers' Deposit Account – The Consumers' Deposit Account is utilized to account for consumer deposits received and refunded.

Reserve Account – The purpose of this account is to retain cash reserves for debt service. It is a backup to the Sinking Fund Account, thus ensuring payment of long-term debt.

Communications Account – The Department offers internet, cable TV and telecommunications service to utility customers that desire it. This account was established to record user fees received and operating expenses and capital improvements costs incurred.

C. Measurement Focus and Basis of Accounting

The Grundy Center Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the Department are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and the results of operations of the Enterprise Fund in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 – CASH AND POOLED INVESTMENTS

The Department's deposits at June 30, 2012 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 Department 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 Department's investments at June 30, 2012 are as follows:

Certificates of Deposit	Date Matures	Cost	Fair Value
Greenbelt Bank	6-10-13	\$ 600,000	\$ 600,000
Grundy National Bank	7-16-12	500,000	500,000
Grundy National Bank	3-19-13	500,000	500,000
Grundy National Bank	9-17-12	500,000	500,000
Grundy National Bank	7-16-12	500,000	500,000
Grundy National Bank	7-1-12	500,000	500,000
Grundy National Bank	7-1-12	500,000	500,000
		<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>

Interest rates on the above CDs range from 0.57% to 0.85%

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND POOLED INVESTMENTS (continued)

Securities	Date Matures	Carrying Amount	Fair Value
North Iowa Municipal Electric Cooperative	Indefinite	\$ 120,000	\$ 120,000

In addition, the Department had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$325,574 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The Department’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. The Department requests bids before it makes an investment.

Credit risk – The Department’s investment in the Iowa Public Agency Investment Trust is un-rated. The Department’s investment in the North Iowa Municipal Electric Cooperative is un-rated.

NOTE 3 – BONDS AND NOTES PAYABLE

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

<u>Year Ending June 30,</u>	Revenue Notes	
	Principal	Interest
2013	\$ 295,000	\$ 23,695
2014	65,000	7,963
2015	65,000	3,998
Total	\$ 425,000	\$ 35,656

The Electric Revenue Capital Loan Notes and the Telecommunications Revenue Capital Loan Notes are not general obligation notes, nor are they payable in any manner by taxation. They are payable solely and only from the net earnings of the utilities’ receipts.

The Electric Revenue Capital Loan Notes are composed of 511 individual notes of \$5,000 each. Interest payments are made semi-annually and principal payments are made yearly.

The Telecommunications Revenue Capital Loan Notes are composed of 140 individual notes of \$5,000 each. Interest payments are made semi-annually and principal payments are made yearly.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – BONDS AND NOTES PAYABLE (continued)

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

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Transfers shall be made to a sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. The City of Grundy Center is not liable by reason of the failure of the net revenues to be sufficient for the payment of the notes.

NOTE 4 – OTHER OBLIGATIONS

The Communications Fund owes the Operating and Maintenance Fund \$525,000. Interest of \$2,291.67 per month is being paid. The interest rate is 5%. There was a \$25,000 principal payment made during the current fiscal year.

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The Department 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 IA 50306-9117.

Plan members are required to contribute 5.38% of their annual salary, and the Department is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Department's contribution to IPERS for the years ended June 30, 2012 and 2011 were \$35,785 and \$30,097, respectively, equal to the required contributions for each year.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – COMPENSATED ABSENCES

City 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. These accumulations are not recognized as disbursements by the Department until used or paid. The Department's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the operating and management account, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 16,106
Sick leave	8,190
Total	<u>\$ 24,296</u>

This liability has been computed based on rates of pay as of June 30, 2012.

NOTE 7 – OTHER INVESTMENTS

The Department is a member of the North Iowa Municipal Electric Cooperative Association (NIMECA), which uses Corn Belt Power Cooperative of Humboldt, Iowa as a power supply source. NIMECA's desire is to obtain long-term transmission and generation of electric power from a common transmission system to benefit the member utilities. The Department has the following investments with NIMECA and Corn Belt:

- a. In 1983, NIMECA required a cash member advance from the Department in the amount of \$120,000. The cash advance earns interest and surplus and credits from NIMECA.
- b. In 1991, the Department entered into an agreement for the "lease/purchase" from Corn Belt of an interest in electrical generation and transmission facilities. On July 10, 1991, \$1,634,480 was paid to Corn Belt for a .3333% interest in the Neal #4 generating plant and a .4% interest in the Lehigh-Webster transmission facilities. The lease ended June 30, 2007. A new lease was signed August 25, 2011.

Production and transmission capital improvement funds have been established through NIMECA for improvements and expansion of the facilities. The Department paid \$50,918 into these funds as part of its cash disbursements for purchased power during the current year.

The Department's share of the funds accrued interest earnings for the current year amounted to \$6,646. This accrual is not reflected in the current year's cash basis receipts.

The balance in the production and transmission capital improvement funds at June 30, 2012 is \$1,009,099.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – OTHER INVESTMENTS (continued)

- c. The Department also has accumulated deferred patronage dividends of \$52,806 through its participation with NIMECA and Corn Belt. These accrued deferred patronage dividends are not reflected in the current year's cash basis receipts. During the current fiscal year, Corn Belt paid \$3,615 deferred patronage dividends to the Department.

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – RELATED PARTY TRANSACTIONS

The City of Grundy Center pays the Department monthly fees for electricity and telephone. During the current fiscal year, the City of Grundy Center paid \$93,194.

NOTE 10 – CONTINGENCIES

Accounts receivable totaling \$104,624 from the Department utility customers is currently due. \$88,811, or 85%, of that total is over ninety days past due. The Department did not write off any uncollectible accounts during the current fiscal year.

NOTE 11 – INTERFUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
Sinking Fund	Improvement Fund	\$ 243,323
Sinking Fund	Communications Fund	69,892
		<u>\$ 313,215</u>
O & M Fund	Communications Fund	\$ 25,000
Total		<u>\$ 338,215</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 – NOTE RECEIVABLE

On November 13, 2010, the Department entered into an agreement with the Grundy Center Development Corporation for a \$100,000 interest free loan for the development of a new housing addition to the City of Grundy Center. The loan will be repaid at the rate of \$5,000 per lot as they are sold. The Department received \$15,000 from lot sales during the current fiscal year.

NOTE 13 – SUBSEQUENT EVENTS

Management evaluated subsequent events through January 22, 2013, which is the date the financial statements were available to be issued.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Department operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 12 active members and 1 retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Department. The Department currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Department and plan member are \$590.45 for single coverage and \$1,812.01 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the Department contributed \$169,951 and plan members eligible for benefits contributed \$0 to the plan.

REQUIRED SUPPLEMENTARY INFORMATION

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

COMPARISON OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
ACTUAL TO BUDGET – ENTERPRISE FUND
Year Ended June 30, 2012

	Actual	Budget	Variance Favorable (Unfavorable)	Net as % of Budget
Receipts:				
Charges for service	\$ 4,459,915	\$ 3,250,000	\$ 1,209,915	37%
Other income	598,138	209,600	388,538	185%
Total Receipts	<u>\$ 5,058,053</u>	<u>\$ 3,459,600</u>	<u>\$ 1,598,453</u>	<u>46%</u>
Disbursements:				
Electric and Telecommunications	<u>\$ 5,210,941</u>	<u>\$ 7,522,350</u>	<u>\$ 2,311,409</u>	<u>31%</u>
Excess of receipts over disbursements	<u>\$ -152,888</u>	<u>\$ -4,062,750</u>		
Balance beginning of year	<u>\$ 7,435,666</u>			
Balance End of Year	<u>\$ 7,282,778</u>			

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2012

In accordance with the Code of Iowa, the Grundy Center City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget certified by the City of Grundy Center includes an amount budgeted for Grundy Center Municipal Utilities.

OTHER SUPPLEMENTAL INFORMATION

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT

Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Charges for Service:		
Sale of Electricity:		
Residential	\$ 1,738,930	\$ 1,811,399
Commercial	604,356	635,780
Total Electrical Receipts	\$ 2,343,286	\$ 2,447,179
Miscellaneous:		
Water collection	\$ 519,979	\$ 521,332
Garbage collection	191,131	192,381
Sewer rental collection	192,358	191,479
Sales tax	125,539	125,191
Interest received	51,256	110,883
Miscellaneous receipts	489,303	112,137
Total Miscellaneous Receipts	\$ 1,569,566	\$ 1,253,403
Total Receipts	\$ 3,912,852	\$ 3,700,582
Collections Transferred to City:		
Water	\$ 583,334	\$ 569,942
Garbage	191,131	192,381
Sewer rental	192,358	191,479
Meter rent	9,450	8,493
Sales tax	40,854	40,994
Local option tax	21,205	21,716
Sales tax paid to State	54,728	54,849
	\$ 1,093,060	\$ 1,079,854
Net Receipts From Operations	\$ 2,819,792	\$ 2,620,728
Disbursements:		
Electric:		
Administration:		
Salaries:		
Superintendent	\$ 64,235	\$ 62,181
Trustees' fees	1,800	1,800
	\$ 66,035	\$ 63,981
Employee Benefits:		
FICA/Medicare	\$ 29,471	\$ 28,547
IPERS	30,255	25,314

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT

Years Ended June 30, 2012 and 2011

	2012	2011
Disbursements: (continued)		
Electric: (continued)		
Administration: (continued)		
Employee Benefits: (continued)		
Group insurance and claims	\$ 182,090	\$ 178,513
Uniform expense	2,813	3,726
	\$ 244,629	\$ 236,100
Regulatory Commission:		
Fees and supplies	\$ 4,008	\$ 4,028
PCB	1,962	4,691
	\$ 5,970	\$ 8,719
Vehicle Expense:		
Gasoline and oil	\$ 8,983	\$ 4,733
Repairs and supplies	8,476	6,858
	\$ 17,459	\$ 11,591
Other Expenditures:		
Insurance	\$ 55,283	\$ 50,300
Telephone	3,865	3,811
Legal fees	224	366
Audit fee	2,450	2,475
Travel and training	2,132	1,802
Use tax	10,502	13,567
Dues	3,565	4,046
Publications	852	820
Investment and banking fees	-	576
Office maintenance and supplies	676	722
Miscellaneous	75,374	35,813
	\$ 154,923	\$ 114,298
Capital Outlay:		
Structure and improvements	\$ 28,922	\$ 8,335
Office equipment	4,557	5,531
Tools, shop and garage equipment	30,812	9,864
Miscellaneous equipment	10,838	10,198
Transportation equipment	107	378
	\$ 75,236	\$ 34,306
Total Administration	\$ 564,252	\$ 468,995
Purchased power	\$ 1,435,171	\$ 1,269,658

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT
Years Ended June 30, 2012 and 2011

	2012	2011
Disbursements: (continued)		
Electric: (continued)		
Generation:		
Salaries:		
Operators	\$ 518	\$ 1,007
Plant maintenance	57,908	98,955
	\$ 58,426	\$ 99,962
Other Expenditures:		
Plant maintenance – material	\$ 925	\$ 1,551
Fuel and oil	2,923	50,080
Supplies	1,761	5,367
	\$ 5,609	\$ 56,998
Total Generation	\$ 64,035	\$ 156,960
Distribution:		
Line labor	\$ 177,894	\$ 128,016
Other Expenditures:		
Supplies	\$ 1,761	\$ -
Consumer Accounts Expense:		
Meter reading-labor	\$ 3,858	\$ 5,639
Accounting and collection-labor	85,641	82,168
Supplies and postage	25,887	30,536
Returned checks	6,916	5,050
Miscellaneous	11,806	2,821
	\$ 134,108	\$ 126,214
Capital Outlay:		
Overhead conductors and devices	\$ 18,706	\$ 3,985
Underground conductors and conduit	115,854	11,414
Transformers	27,132	7,811
Distribution structures	2,397	2,618
Meters	8,156	7,030
Street lights	6,368	2,188
Special projects	327,419	985,613
Diesel engines	-	77,436
	\$ 506,032	\$ 1,098,095

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT

Years Ended June 30, 2012 and 2011

	2012	2011
Disbursements: (continued)		
Total Distribution	\$ 819,795	\$ 1,352,325
Total Expenses	\$ 2,883,253	\$ 3,247,938
Excess of receipts over disbursements	\$ -63,461	\$ -627,210
Other Financing Sources (Uses):		
Transfer in (out)	\$ 25,000	\$ 25,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -38,461	\$ -602,210
Balance beginning of year	2,604,117	3,206,327
Balance End of Year	\$ 2,565,656	\$ 2,604,117

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
SINKING FUND ACCOUNT
Years Ended June 30, 2012 and 2011

	2012	2011
Receipts	\$ -	\$ -
Disbursements:		
Electric:		
Electric Revenue Capital Loan Notes:		
Principal payments	\$ 220,000	\$ 210,000
Interest payments	23,323	33,927
	\$ 243,323	\$ 243,927
Telecommunications:		
Telecommunications Revenue Capital Loan Notes:		
Principal payments	\$ 55,000	\$ 55,000
Interest payments	14,892	18,165
	\$ 69,892	\$ 73,165
Total Disbursements	\$ 313,215	\$ 317,092
Excess (deficiency) of receipts over (under) disbursements	\$ -313,215	\$ -317,092
Other Financing Sources (Uses):		
Transfer from Improvement Fund Account	\$ 243,323	\$ 243,927
Transfer from Communications Fund Account	69,892	73,165
	\$ 313,215	\$ 317,092
Excess of receipts and other financing sources over disbursements and other financing uses	\$ -	\$ -
Balance beginning of year	-	-
Balance End of Year	\$ -	\$ -

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
IMPROVEMENT ACCOUNT

Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Interest	\$ 16,651	\$ 21,455
Miscellaneous	-	3,471
	\$ 16,651	\$ 24,926
Disbursements:		
Electric	\$ 500	\$ 450
Excess of receipts over disbursements	\$ 16,151	\$ 24,476
Other Financing Sources (Uses):		
Transfer to Sinking Fund Account	\$ -243,323	\$ -243,927
	\$ -243,323	\$ -243,927
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -227,172	\$ -219,451
Balance beginning of year	2,345,335	2,564,786
Balance End of Year	\$ 2,118,163	\$ 2,345,335

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
POWER SOURCE ACCOUNT
Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Interest	\$ 3,704	\$ 11,112
Disbursements:		
Electric	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 3,704	\$ 11,112
Balance beginning of year	857,331	846,219
Balance End of Year	\$ 861,035	\$ 857,331

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
CONSUMERS' DEPOSIT ACCOUNT
Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Consumers' deposits	\$ 2,975	\$ 4,000
Interest	180	284
Total Receipts	\$ 3,155	\$ 4,284
Disbursements:		
Electric:		
Consumers' deposit refunds	\$ 2,765	\$ 3,431
Interest paid on consumers' deposits	19	27
Miscellaneous	-	19
Total Disbursements	\$ 2,784	\$ 3,477
Excess of receipts over disbursements	\$ 371	\$ 807
Balance beginning of year	39,021	38,214
Balance End of Year	\$ 39,392	\$ 39,021

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
RESERVE ACCOUNT

Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Interest	\$ 464	\$ 464
Disbursements:		
Electric	\$ -	\$ -
Excess of receipts over disbursements	\$ 464	\$ 464
Balance beginning of year	231,979	231,515
Balance End of Year	\$ 232,443	\$ 231,979

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
COMMUNICATIONS ACCOUNT
Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Miscellaneous	\$ 112,191	\$ 106,515
Interest	7,410	8,326
Internet fees	367,732	342,182
Cable TV fees	354,130	336,174
Telephone fees	262,622	271,862
Tax	17,142	17,512
Total Receipts	\$ 1,121,227	\$ 1,082,571
Disbursements:		
Telecommunications:		
Internet/phone/cable charges	\$ 651,662	\$ 601,237
Wages	71,836	68,856
Supplies	55,969	36,643
Franchise fee	10,085	9,591
Interest paid	27,500	28,750
Telephone	3,022	2,780
Payroll taxes and benefits	11,026	10,017
Equipment	14,464	13,291
Miscellaneous	2,757	526
Sales and other taxes paid	17,624	18,110
E911 fees	11,265	11,554
Legal fees	2,498	23,886
Dues	1,616	2,152
Audit	2,200	2,050
Trustees' compensation	1,800	1,800
Professional fees	-	60
Insurance	4,187	4,588
Repairs and maintenance	22,668	614
Travel	5,950	-
Total Disbursements	\$ 918,129	\$ 836,505
Excess of receipts over disbursements	\$ 203,098	\$ 246,066

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
COMMUNICATIONS ACCOUNT
Years Ended June 30, 2012 and 2011

	2012	2011
Other Financing Sources (Uses):		
Transfer to O & M Fund Account	\$ -25,000	\$ -
Transfer to Sinking Fund Account	-69,892	98,165
Total Other Financing Sources (Uses)	\$ -94,892	\$ -98,165
Excess of receipts and other financing sources over disbursements and other financing uses	\$ 108,206	\$ 147,901
Balance beginning of year	1,357,883	1,209,982
Balance End of Year	\$ 1,466,089	\$ 1,357,883

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2012

Obligation

Electric Revenue Capital Loan Notes:

Date of Issue	July 1, 1998
Interest Rate	4.20-5.15%
Amount originally issued	<u>\$ 2,555,000</u>
Balance beginning of year	\$ 455,000
Issued during year	-
Redeemed during year	<u>-220,000</u>
Balance End of Year	<u>\$ 235,000</u>
Interest Paid	<u>\$ 23,323</u>
Interest Due and Unpaid	<u>\$ -</u>

Telecommunications Revenue Capital Loan Notes:

Date of Issue	Mar 1, 2000
Interest rate	5.00-6.15%
Amount originally issued	<u>\$ 700,000</u>
Balance beginning of year	\$ 245,000
Issued during year	-
Redeemed during year	<u>-55,000</u>
Balance End of Year	<u>\$ 190,000</u>
Interest Paid	<u>\$ 14,892</u>
Interest Due and Unpaid	<u>\$ -</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

BOND AND NOTE MATURITIES
June 30, 2012

Revenue Notes		
Electric		
Issued July 1, 1998		
Year Ending June 30,	Interest Rates	Amount
2013	5.15%	\$ 235,000
Total		<u>\$ 235,000</u>

Revenue Notes		
Telecommunications		
Issued March 1, 2000		
Year Ending June 30,	Interest Rates	Amount
2013	6.05%	\$ 60,000
2014	6.10%	65,000
2015	6.15%	<u>65,000</u>
Total		<u>\$ 190,000</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION – CASH BASIS
PROPRIETARY FUNDS – ENTERPRISE FUNDS

For the Last Nine Years

	2012	2011	2010	2009
Receipts:				
Interest	\$ 79,665	\$ 152,524	\$ 146,767	\$ 198,891
Transfers in	338,215	342,092	619,624	636,986
Charges for service	4,459,915	4,517,900	4,354,264	4,284,193
Miscellaneous	518,473	153,515	215,997	287,959
Total	<u>\$ 5,396,268</u>	<u>\$ 5,166,031</u>	<u>\$ 5,336,652</u>	<u>\$ 5,408,029</u>
Disbursements:				
Operating:				
Business type activities	<u>\$ 5,549,156</u>	<u>\$ 5,485,316</u>	<u>\$ 4,830,783</u>	<u>\$ 5,203,676</u>
Total	<u>\$ 5,549,156</u>	<u>\$ 5,485,316</u>	<u>\$ 4,830,783</u>	<u>\$ 5,203,676</u>

See accompanying independent auditor's report.

2008	2007	2006	2005	2004
\$ 310,868	\$ 344,002	\$ 202,617	\$ 129,291	92,107
393,638	653,710	314,592	319,271	813,226
4,300,174	3,089,239	3,237,371	2,848,242	2,763,910
350,432	320,922	377,161	582,723	1,183,392
<u>\$ 5,355,112</u>	<u>\$ 4,407,873</u>	<u>\$ 4,131,741</u>	<u>\$ 3,879,527</u>	<u>4,852,635</u>
<u>\$ 4,856,137</u>	<u>\$ 4,029,471</u>	<u>\$ 3,521,320</u>	<u>\$ 3,530,492</u>	<u>3,660,283</u>
<u>\$ 4,856,137</u>	<u>\$ 4,029,471</u>	<u>\$ 3,521,320</u>	<u>\$ 3,530,492</u>	<u>3,660,283</u>

Independent Auditor's 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

Grundy Center Municipal Utilities
Grundy Center, Iowa

To the Board of Trustees:

I have audited the accompanying financial statements of the business type activities and each major fund of Grundy Center Municipal Utilities, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued my report thereon dated January 22, 2013. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

The management of Grundy Center Municipal Utilities' is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit I considered Grundy Center Municipal Utilities' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grundy Center Municipal Utilities' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Grundy Center Municipal Utilities' internal control over financial reporting.

My 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, I identified a deficiency in internal control over financial reporting I consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Grundy Center Municipal Utilities' financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings, as item I-A-12 to be a material weakness.

Compliance and Other Matters

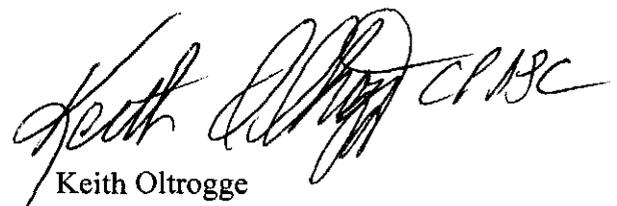
As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

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

Grundy Center Municipal Utilities' responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the Department's responses, I did not audit Grundy Center Municipal Utilities' responses and, accordingly, I 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 customers of the Grundy Center Municipal Utilities and other parties to whom the Grundy Center Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Department during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

January 22, 2013

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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-I realize that with a limited number of office employees, segregation of duties is difficult. However, the Department should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response-We will continue to monitor this.

Conclusion-Response acknowledged. The Department should continue to segregate duties to the extent possible with existing personnel and utilize the Board of Trustees to provide additional control through review of financial transactions and reports.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget-Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- II-B-12 Questionable Disbursements-I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 Travel Expense-No disbursements of Department money for travel expenses of spouses of Department officials were noted.
- II-D-12 Business Transactions-No business transactions between the Department and Department officials or employees are reported.
- II-E-12 Bond Coverage-Surety bond coverage of Department 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.
- II-F-12 Board Minutes-No transactions were found that I believe should have been approved in the Board minutes but were not.

Finding-The minutes did not include the purpose of the expenditure, a total for the expenditures from each fund, and a summary of all receipts. Also, annual gross salaries were not published in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation-The Department should comply with Chapter 21 of the Code of Iowa and should publish minutes and salaries as required.

Response-We will publish minutes and salaries as required.

Conclusion-Response accepted.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting (continued):

- II-G-12 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 Department's investment policy were noted.
- II-H-12 Revenue Bonds and Notes-The Department has complied with the revenue bond and note resolutions.
- II-I-12 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.