

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

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

June 30, 2012

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

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

Board of Trustees and Officials  
June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
Dan McCabe	Chairman of the Board	October, 2017
David George	Board Member	October, 2013
Bobby Stull	Board Member	October, 2013
Harvey Ungerman	Board Member	October, 2015
Carol Nemitz	Board Member	October, 2015
Jack Hedgecock	General Manager	Indefinite
Randall Neff	Treasurer/Business Manager	Indefinite
David McCoid	Attorney	Indefinite

Offices located in:  
**Burlington**  
(319) 753-9877  
**Cedar Rapids**  
(319) 393-2374  
**Centerville**  
(641) 437-4296  
**Fairfield**  
(641) 472-6171  
**Mt. Pleasant**  
(319) 385-3026



Offices located in:  
**Muscatine**  
(563) 264-2727  
**Oskaloosa**  
(641) 672-2523  
**Ottumwa**  
(641) 683-1823  
**Pella**  
(641) 628-9411  
**Sigourney**  
(641) 622-1013

## TD&T Financial Group, P.C.

### Independent Auditors' Report

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

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As explained in Note 2 of the Notes to Financial Statements, an accurate listing of property and equipment acquired in prior years has not been retained. Because of this, it is likely that Mt. Pleasant Municipal Utilities no longer owns some of the assets included in the property and equipment. In our opinion, an accurate listing should be kept in order to make sure that the balance conforms with accounting principles generally accepted in the United States of America. The effect on the financial statements of this practice is not reasonably determined.

In our opinion, except for the effects of not having an accurate listing of property and equipment as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2012, on our consideration of Mt. Pleasant Municipal Utilities' – a component unit of the City of Mt. Pleasant, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2011 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplemental information included in pages 28 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The information on pages 29 through 38 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and has been subjected to the auditing procedures applied in our 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 29 through 38 is fairly stated in all material respects in relation to the financial statements taken as a whole. The information on page 28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*TDE&T Financial Group, P.C.*

October 2, 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant 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**

- Operating revenues of the Utilities' activities increased 0.8%, or approximately \$81,100, from fiscal year 2011 to fiscal year 2012.
- Operating expenses decreased 1.0%, or approximately \$92,200, from fiscal year 2011 to fiscal year 2012.
- Mt. Pleasant Municipal Utilities' net assets increased 3.1%, or \$487,000, 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 Financial Statements consist of a Combining Statement of Net Assets, a Combining Statement of Revenue, Expenses and Changes in Fund Net Assets, and a Combining Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Municipal Utilities as a whole and present an overall view of the Utilities' finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

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

## **REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

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

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

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

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

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

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

## FINANCIAL ANALYSIS

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

	Net Assets June 30,	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 4,873,312	5,017,834
Capital assets	<u>18,065,218</u>	<u>18,124,973</u>
Total assets	\$ <u>22,938,530</u>	<u>23,142,807</u>
Long-term liabilities	\$ 4,358,000	5,154,000
Other liabilities	<u>2,172,501</u>	<u>2,067,778</u>
Total liabilities	\$ <u>6,530,501</u>	<u>7,221,778</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 12,856,006	12,186,035
Restricted	359,937	770,110
Unrestricted	<u>3,192,086</u>	<u>2,964,884</u>
Total net assets	\$ <u>16,408,029</u>	<u>15,921,029</u>

Net assets of business type activities increased \$487,000, or 3.1%, over fiscal year 2011. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is \$3,192,086 at the end of this year.

Changes in Net Assets  
Year Ended June 30,

	2012	2011
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 10,357,426	10,276,303
Non-operating revenues:		
Investment earnings	7,540	21,011
Other non-operating revenue	37,075	19,224
Total revenues	10,402,041	10,316,538
Operating expenses:		
Power, pumping and treatment plant	6,785,625	6,982,647
Transmission and distribution	1,386,405	1,406,751
General and administration	1,421,875	1,296,673
Non-operating expenses:		
Interest expense	172,046	206,065
Other non-operating expense	49,090	2,188
Total expenses	9,815,041	9,894,324
Increase in net assets	587,000	422,214
Net assets beginning of year, before restatement	15,921,029	15,693,294
Restatement of beginning net assets	-	(94,479)
Net assets beginning of year, as restated	15,921,029	15,598,815
Permanent transfer to City of Mt. Pleasant	(100,000)	(100,000)
Net assets end of year	\$ 16,408,029	15,921,029

Revenues for business type activities increased by approximately \$86,000 over the prior year while total expenses were approximately \$79,000 less than the prior fiscal year.

**INDIVIDUAL MAJOR FUND ANALYSIS**

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2012 with a \$7,236,155 net asset balance compared to the prior year ending net asset balance of \$7,147,415.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2012 with a \$9,171,874 net asset balance compared to the prior year ending net asset balance of \$8,773,614.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Mt. Pleasant Municipal Utilities amended its budget one time. The amendment was done in February of 2012. The amendment was done to increase budgeted disbursements to cover unplanned disbursements, including disbursements associated with the refunding of the existing water revenue bond.

The Utilities' receipts were \$342,355 more than budgeted, a variance of 2.6% and their total disbursements were \$30,963 more than budgeted, a variance of 0.2%.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Utilities' capital assets include buildings, improvements, and equipment. Capital assets totaled \$18,065,218 (net of accumulated depreciation) at June 30, 2012. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2012 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

### **Long-Term Debt**

At June 30, 2012, long-term debt outstanding was \$5,192,000. Debt decreased as a result of payment of revenue notes.

Additional information about the Utilities' long-term debt is presented in Note 13 to the financial statements.

## **ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE**

Several economic factors affected decisions made by the Utilities in setting its fiscal 2013 budget.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

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

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

**Combining Statement of Net Assets**  
**June 30, 2012**

	<u>Assets</u>		
	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 1,506,261	443,637	1,949,898
Receivables:			
Customer	546,825	109,719	656,544
Unbilled usage	603,479	119,645	723,124
Due from water fund	110,649	-	110,649
Material and supplies inventory	414,549	126,425	540,974
Prepaid expenses	204,693	68,741	273,434
Restricted assets:			
Cash	227,151	31,383	258,534
Certificates of deposit	360,000	-	360,000
Accrued interest receivable	155	-	155
Total current assets	<u>3,973,762</u>	<u>899,550</u>	<u>4,873,312</u>
Noncurrent assets:			
Property and equipment	24,049,523	18,128,187	42,177,710
Accumulated depreciation/amortization	<u>(15,419,536)</u>	<u>(8,692,956)</u>	<u>(24,112,492)</u>
Total noncurrent assets	<u>8,629,987</u>	<u>9,435,231</u>	<u>18,065,218</u>
Total assets	<u>\$ 12,603,749</u>	<u>10,334,781</u>	<u>22,938,530</u>

See accompanying notes to financial statements.

Liabilities and Net Assets

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,003,672	72,094	1,075,766
Due to electric fund	-	110,649	110,649
Customer deposits	134,874	-	134,874
Accrued interest	13,329	3,883	17,212
Notes payable	475,000	359,000	834,000
Total current liabilities	<u>1,626,875</u>	<u>545,626</u>	<u>2,172,501</u>
Long-term liabilities:			
Notes payable	1,805,000	2,553,000	4,358,000
Total liabilities	<u>3,431,875</u>	<u>3,098,626</u>	<u>6,530,501</u>
Net assets:			
Invested in capital assets, net of related debt	6,336,658	6,519,348	12,856,006
Restricted for:			
Reserve account	359,937	-	359,937
Unrestricted	2,475,279	716,807	3,192,086
Total net assets	<u>9,171,874</u>	<u>7,236,155</u>	<u>16,408,029</u>
 Total liabilities and net assets	 \$ <u>12,603,749</u>	 <u>10,334,781</u>	 <u>22,938,530</u>

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

**Combining Statement of Revenue, Expenses**  
**and Changes in Fund Net Assets**  
**Year Ended June 30, 2012**

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating revenue:			
Metered sales	\$ 8,367,974	1,776,520	10,144,494
Other sales	28,852	-	28,852
Other revenue	56,772	60,208	116,980
Cut-off notice fee	8,336	1,697	10,033
Sewer and solid waste service fee	14,956	3,044	18,000
Penalty charges and bad debt recoveries	32,461	6,606	39,067
Total operating revenue	<u>8,509,351</u>	<u>1,848,075</u>	<u>10,357,426</u>
Operating expenses:			
Power, pumping and treatment plant	5,993,382	792,243	6,785,625
Transmission and distribution	753,112	633,293	1,386,405
General and administration	1,181,436	240,439	1,421,875
Total operating expenses	<u>7,927,930</u>	<u>1,665,975</u>	<u>9,593,905</u>
Net operating income	<u>581,421</u>	<u>182,100</u>	<u>763,521</u>
Non-operating revenue:			
Interest income	1,097	442	1,539
Interest income - restricted	5,123	878	6,001
Gain on disposition of property and equipment	2,817	34,258	37,075
Total other revenue	<u>9,037</u>	<u>35,578</u>	<u>44,615</u>
Non-operating expenses:			
Interest expense	91,698	80,348	172,046
Bond issuance costs	-	46,550	46,550
Banking fees	500	2,040	2,540
Total other expenses	<u>92,198</u>	<u>128,938</u>	<u>221,136</u>
Change in net assets	<u>498,260</u>	<u>88,740</u>	<u>587,000</u>
Net assets, beginning of year, before restatement	8,854,401	7,147,415	16,001,816
Restatement of beginning net assets	<u>(80,787)</u>	<u>-</u>	<u>(80,787)</u>
Net assets, beginning of year, as restated	<u>8,773,614</u>	<u>7,147,415</u>	<u>15,921,029</u>
Permanent transfer to City of Mt. Pleasant	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net assets end of year	<u>\$ 9,171,874</u>	<u>7,236,155</u>	<u>16,408,029</u>

See accompanying notes to financial statements.

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

**Combining Statement of Cash Flows**  
**Year Ended June 30, 2012**

	Electric	Water	Total
Cash flows from operating activities:			
Cash received from customers and users	\$ 8,687,015	1,848,159	10,535,174
Cash received from other revenues	2,817	34,258	37,075
Cash paid to employees for services	(1,059,824)	(722,397)	(1,782,221)
Cash paid to suppliers	(6,652,922)	(576,564)	(7,229,486)
Net cash provided (used) by operating activities	977,086	583,456	1,560,542
Cash flows from noncapital financing activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(455,000)	(3,218,000)	(3,673,000)
Interest paid on notes payable	(94,358)	(84,415)	(178,773)
Proceeds from notes payable	-	2,950,000	2,950,000
Cash paid for banking fees on notes payable	(500)	(2,040)	(2,540)
Cash paid for bond issuance costs	-	(46,550)	(46,550)
Purchase of property and equipment	(342,229)	(664,972)	(1,007,201)
Proceeds from disposition of property and equipment	2,817	34,258	37,075
Net cash provided (used) by capital activities	(889,270)	(1,031,719)	(1,920,989)
Cash flows from investing activities:			
Proceeds from sale of investments	250,000	-	250,000
Interest on investments	7,043	1,320	8,363
Net cash provided (used) by investing activities	257,043	1,320	258,363
Net change in cash	244,859	(446,943)	(202,084)
Cash and cash equivalents at beginning of year	1,488,553	921,963	2,410,516
Cash and cash equivalents at end of year	\$ 1,733,412	475,020	2,208,432

(continued)

See accompanying notes to financial statements.

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

**Combining Statement of Cash Flows (Continued)**  
**Year Ended June 30, 2012**

	Electric	Water	Total
Cash flows from operating activities:			
Operating income	\$ 581,421	182,100	763,521
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	630,579	436,378	1,066,957
Changes in assets and liabilities:			
(Increase) decrease in due from other accounts	(14,165)	14,165	-
(Increase) decrease in accounts receivable	(58,172)	(14,081)	(72,253)
(Increase) decrease in unbilled usage	(32,830)	(15,563)	(48,393)
(Increase) decrease in inventories	(29,989)	(14,361)	(44,350)
(Increase) decrease in prepaid expense	(126,616)	(2,608)	(129,224)
Increase (decrease) in customer deposits	1,736	-	1,736
Increase (decrease) in accounts payable and accrued expenses	25,122	(2,574)	22,548
Net cash provided (used) by operating activities	977,086	583,456	1,560,542
Cash flows from noncapital financing activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(455,000)	(3,218,000)	(3,673,000)
Interest paid on notes payable	(94,358)	(84,415)	(178,773)
Proceeds from notes payable	-	2,950,000	2,950,000
Cash paid for banking fees on notes payable	(500)	(2,040)	(2,540)
Cash paid for bond issuance costs	-	(46,550)	(46,550)
Purchase of property and equipment	(342,229)	(664,972)	(1,007,201)
Proceeds from disposition of property and equipment	2,817	34,258	37,075
Net cash provided (used) by capital activities	(889,270)	(1,031,719)	(1,920,989)

(continued)

See accompanying notes to financial statements.

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

**Combining Statement of Cash Flows (Continued)  
Year Ended June 30, 2012**

	Electric	Water	Total
Cash flows from investing activities:			
Proceeds from sale of investments	250,000	-	250,000
Interest on investments	7,043	1,320	8,363
Net cash provided (used) by investing activities	257,043	1,320	258,363
Net change in cash	244,859	(446,943)	(202,084)
Cash and cash equivalents at beginning of year	1,488,553	921,963	2,410,516
Cash and cash equivalents at end of year	\$ 1,733,412	475,020	2,208,432
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 1,506,261	443,637	1,949,898
Restricted assets:			
Customer deposits	134,874	-	134,874
Notes payable retirement	92,277	31,383	123,660
Total cash and cash equivalents at end of year	\$ 1,733,412	475,020	2,208,432

See accompanying notes to financial statements.

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

Notes to Financial Statements  
June 30, 2012

Note 1 – Significant Accounting Policies

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

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

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities.

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

Basis of Presentation

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

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

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

(continued)

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

Notes to Financial Statements (Continued)  
June 30, 2012

Note 1 – Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

The proprietary funds of the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

Cash Equivalents

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

Customer Accounts and Unbilled Usage

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

Due from and Due to Other Funds

During the course of its operations, the Utilities has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded.

(continued)

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

Notes to Financial Statements (Continued)  
June 30, 2012

Note 1 – Significant Accounting Policies (Continued)

Inventories

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

Restricted Assets

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

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Fund Net Assets are allocated 83.09% and 16.91% to the Electric and Water Funds, respectively.

Budgets and Budgetary Accounting

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

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

Estimates

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

Date of Management's Review

Management has evaluated subsequent events through October 2, 2012, the date which the statements were available to be issued.

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

**Notes to Financial Statements (Continued)  
June 30, 2012**

**Note 2 – Property and Equipment Accounting Policies**

An accurate listing of assets acquired in prior years has not been retained by the Utilities. Because of this, it is likely that there are items included in the balance of property and equipment that are no longer owned by the Utilities, which is not in accordance with accounting principles generally accepted in the United States of America. Because the cost records are not available, it is impossible to determine the effect on the presentation of financial position and results of operations.

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

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

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

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

(continued)

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

**Notes to Financial Statements (Continued)**  
**June 30, 2012**

Note 2 – Property and Equipment Accounting Policies (Continued)

	Electric Fund	Water Fund
Capital assets not being depreciated/amortized:		
Land	\$ -	131,975
Construction in progress	26,296	650,589
Total capital assets not being depreciated/amortized	26,296	782,564
Capital assets being depreciated/amortized:		
Land improvements	41,003	-
Edr treatment plant	-	6,149,810
Buildings	1,011,328	1,433,026
Production equipment	12,037,966	1,354,301
Distribution system	8,264,273	5,056,574
Water tower	-	1,582,798
Machinery and equipment	808,296	795,384
Transportation equipment	150,727	-
Office furniture and fixtures	182,503	91,315
Consultant services	1,128,158	882,415
Steam supply line	42,667	-
Computer	333,603	-
Leasehold improvements	22,703	-
Total capital assets being depreciated/amortized	24,023,227	17,345,623
Total	\$ 24,049,523	18,128,187

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 3 regarding electricity, water, and related services furnished to the City without charge.

Note 3 – Donated Electricity and Water

The municipal parks, city hall, and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service, and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2012, services donated to the City totaled \$172,681 and \$18,608 for the Electric and Water Funds, respectively. No revenue has been recognized in the financial statements for these amounts.

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

Notes to Financial Statements (Continued)  
June 30, 2012

Note 4 – Cash and Pooled Investments

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

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

Note 5 – Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the Utilities is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$142,146, \$122,979, and \$112,356, respectively, equal to the required contributions for each year.

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

Notes to Financial Statements (Continued)  
June 30, 2012

Note 6 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$4,950,901 which represents 98.7% of total kilowatt hours generated and purchased.

Note 7 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and has been computed based on rates of pay in effect at June 30, 2012.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2012. This amount based on June 30, 2012 wages and salaries was \$123,655.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement at age 62 or older, or upon death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The liability for employee sick leave is reported in the combining statement of net assets only for employees who have retired. As of June 30, 2012, there was no liability for sick leave accrued.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2012 is approximately \$198,955.

Note 8 – Cash Flow Information

Cash paid for interest and taxes for the year ended June 30, 2012 was as follows:

Interest	\$ 178,773
Taxes	-

Note 9 – Accounts Receivable

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

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

**Notes to Financial Statements (Continued)  
June 30, 2012**

Note 10 – Unrestricted Net Assets Designated by the Board

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. As of June 30, 2012 the amounts that are board designated are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Designated Net Assets</u>
Electric Fund	Light Improvement	\$ 526,979
Water Fund	Water Improvement	946,331
Electric Fund	Light Contingency	<u>512,486</u>
Total board designated cash and investments		\$ <u>1,985,796</u>

Note 11 – Allowance for Doubtful Accounts

As of June 30, 2012, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,271 and \$930, respectively.

Note 12 – Risk Management

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

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

**Notes to Financial Statements (Continued)**  
**June 30, 2012**

Note 13 – Notes Payable

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

Year Ending June 30,	<u>Water Revenue Notes</u>			<u>Electric Revenue Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 359,000	45,272	404,272	475,000	78,660	553,660
2014	366,000	39,424	405,424	490,000	62,273	552,273
2015	373,000	33,552	406,552	505,000	45,367	550,367
2016	380,000	27,584	407,584	500,000	27,945	527,945
2017	385,000	21,464	406,464	310,000	10,695	320,695
2018	390,000	15,264	405,264	-	-	-
2019	400,000	8,944	408,944	-	-	-
2020	<u>259,000</u>	<u>2,072</u>	<u>261,072</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>2,912,000</u>	<u>193,576</u>	<u>3,105,576</u>	<u>2,280,000</u>	<u>224,940</u>	<u>2,504,940</u>

The Utilities issued water revenue bonds in an aggregate amount of \$2,950,000 dated April 2, 2012 for the purpose of paying costs of the refunding of the outstanding water revenue capital loan notes, series 1999. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into a water revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/6<sup>th</sup> of the next principal payment and 1/6<sup>th</sup> of the next interest payment into a water sinking account.

(continued)

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

**Notes to Financial Statements (Continued)**  
**June 30, 2012**

Note 13 – Notes Payable (Continued)

The Utilities issued electric revenue bonds in an aggregate principal amount of \$3,600,000 dated May 20, 2009 for the purpose of paying costs of the refunding of the outstanding electric revenue bonds dated May 1, 2001. The resolution providing for the issuance includes the following provisions:

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

During the year ended June 30, 2012, the Utilities was in compliance with the revenue note provisions.

Note 14 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>Water</u> <u>Revenue Notes</u>	<u>Electric</u> <u>Revenue Notes</u>	<u>Total</u>
Balance beginning of year	\$ 3,180,000	2,735,000	5,915,000
Increases	2,950,000	-	2,950,000
Decreases	<u>3,218,000</u>	<u>455,000</u>	<u>3,673,000</u>
Balance end of year	\$ <u>2,912,000</u>	<u>2,280,000</u>	<u>5,192,000</u>
Due within one year	\$ <u>359,000</u>	<u>475,000</u>	<u>834,000</u>

Note 15 – Related Party Transactions

The Utilities had business transactions between the Utilities and relatives of Utility employees, totaling \$27,535 during the year ended June 30, 2012.

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

Notes to Financial Statements (Continued)  
June 30, 2012

Note 16 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2012 was \$100,000.

Note 17 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Water	\$110,649

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

Note 18 – Commitments

The Utilities has entered into an engineering contract totaling \$18,000. As of June 30, 2012, there is a remainder due of \$10,500 that will be paid as the project progresses.

Note 19 – Contingencies

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

Note 20 – Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 65 *Items Previously Reported as Assets and Liabilities*, was implemented during the year ended June 30, 2012. As a result, the June 30, 2011 electric fund net asset balance was reduced by \$80,787 to retrospectively adjust for debt issuance costs that had not previously been expensed. For presentation in Management's Discussion and Analysis, the electric fund net asset balance was reduced by \$94,479 to retrospectively adjust for the debt issuance costs as of June 30, 2010 in order to make the adjustment in the earliest year presented. The difference between the \$80,787 that was adjusted as of June 30, 2011 and the \$94,479 that was adjusted as of June 30, 2010 reflects \$13,692 of debt issuance costs that had been amortized in the original financial statements for the year ended June 30, 2011 prior to the implementation of Statement No. 65.

## Required Supplementary Information

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

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis)  
Required Supplementary Information  
Year Ended June 30, 2012

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts	\$ 13,483,955	10,125,000	13,141,600	342,355
Disbursements	13,586,039	10,255,756	13,555,076	(30,963)
Net	(102,084)	(130,756)	(413,476)	311,392
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	2,410,516	2,256,352	2,410,516	-
Ending balances	\$ 2,208,432	2,025,596	1,897,040	311,392

See accompanying independent auditors' report.

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

Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2012

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 13,483,955	(3,081,914)	10,402,041
Expenditures / expenses	13,586,039	(3,770,998)	9,815,041
Net	(102,084)	689,084	587,000
Other financing sources, net	(100,000)	-	(100,000)
Beginning net assets	2,410,516	13,510,513	15,921,029
Ending net assets	\$ 2,208,432	14,199,597	16,408,029

See accompanying independent auditors' report.

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

Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2012

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. One of the nine functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$3,299,320. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted.

## Other Supplementary Information

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

**Unaudited Comparative Operating Statistics**

	Year Ended June 30,	
	2012	2011
Number of customers served:		
Electricity:		
Residential	3,226	3,224
Commercial	789	794
Electric heat	64	70
Security lights	116	113
Special commercial demand	34	30
Steam	-	-
Water	3,677	3,677
Kilowatt hours:		
Number of kilowatt hours purchased	78,321,147	78,364,471
Number of kilowatt hours produced	1,014,317	982,739
	79,335,464	79,347,210
Number of kilowatt hours sold	69,432,802	70,533,023
% of kilowatt hours sold to total produced and purchased	87.52%	88.89%
Number of kilowatt hours for export	561,717	305,603
Number of kilowatt hours for internal use	4,230,644	4,724,157
Number of kilowatt hours donated to city	2,319,775	2,841,483
	7,112,136	7,871,243
Gallons:		
Number of gallons pumped	613,883,000	585,919,000
Number of gallons billed	427,489,140	410,598,689
% of gallons billed to total pumped	69.64%	70.08%
Number of gallons for internal use	130,500	1,765,900
Number of gallons donated to city	2,928,561	2,055,455
	3,059,061	3,821,355

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

See accompanying independent auditors' report.

2010	2009	2008	2007	2006
3,192	3,166	3,193	3,107	3,119
817	823	789	746	707
74	76	85	187	193
116	120	125	122	121
30	30	30	32	32
1	1	1	1	1
3,667	3,666	3,653	3,584	3,557
77,027,608	79,467,625	82,403,813	79,037,450	80,655,959
379,933	2,977,414	9,697,764	4,567,281	92,474
<u>77,407,541</u>	<u>82,445,039</u>	<u>92,101,577</u>	<u>83,604,731</u>	<u>80,748,433</u>
67,546,011	70,015,683	73,696,416	71,165,343	70,901,276
87.26%	84.92%	80.02%	85.12%	87.81%
161,778	70,643	4,324,914	2,047,516	-
4,280,387	4,244,158	4,183,565	4,410,334	4,751,883
2,955,426	3,006,871	2,949,411	2,995,590	2,895,695
<u>7,397,591</u>	<u>7,321,672</u>	<u>11,457,890</u>	<u>9,453,440</u>	<u>7,647,578</u>
598,517,000	571,562,000	564,416,000	582,580,100	645,262,500
403,845,395	405,198,141	432,257,918	437,794,600	468,899,618
67.47%	70.89%	76.58%	75.15%	72.67%
2,640,675	1,796,175	1,918,675	1,923,224	1,598,851
2,376,125	2,751,678	2,792,643	3,598,129	3,159,043
<u>5,016,800</u>	<u>4,547,853</u>	<u>4,711,318</u>	<u>5,521,353</u>	<u>4,757,894</u>

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

Schedule of Net Asset Detail  
June 30, 2012

	Electric	Water	Total
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 662,258	22,412	684,670
Salaries and wages	88,810	49,682	138,492
Payroll and withholding taxes	120,471	-	120,471
Sales tax payable	20,453	-	20,453
Sewer and trash payable	111,680	-	111,680
 Total	 \$ 1,003,672	 72,094	 1,075,766

See accompanying independent auditors' report.

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

**Schedule of Net Asset Detail (Continued)**  
**June 30, 2012**

Assets				
	Balance	Acquisitions	Trades	Balance
	June 30,	(Eliminations)	and	June 30,
	2011		(Adjustments)	2012
Property and equipment:				
Electric Fund:				
Land improvement	\$ 41,003	-	-	41,003
Buildings	972,201	39,127	-	1,011,328
Generating equipment	12,037,966	-	-	12,037,966
Distribution equipment	8,017,764	246,509	-	8,264,273
Construction in progress	492	26,296	(492)	26,296
Machinery and equipment	802,567	5,729	-	808,296
Transportation equipment	150,727	-	-	150,727
Office furniture and fixtures	179,835	2,668	-	182,503
Consultant services	1,128,158	-	-	1,128,158
Steam supply line	42,667	-	-	42,667
Computer	311,211	22,392	-	333,603
Leasehold improvements	22,703	-	-	22,703
Total	\$ <u>23,707,294</u>	<u>342,721</u>	<u>(492)</u>	<u>24,049,523</u>

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

(continued)

See accompanying independent auditors' report.

Assets	Accumulated Depreciation/Amortization				Depreciated Cost June 30, 2012
	Estimated Life In Years	Balance June 30, 2011	Acquisitions (Eliminations)	Trades and (Adjustments)	
15	\$ 26,545	1,157	-	27,702	13,301
30	819,432	11,737	-	831,169	180,159
10-30	5,670,170	336,678	-	6,006,848	6,031,118
30	5,779,382	231,563	-	6,010,945	2,253,328
	-	-	-	-	26,296
8-10	696,868	26,887	-	723,755	84,541
5	150,727	-	-	150,727	-
5-10	174,231	2,671	-	176,902	5,601
5	1,127,306	568	-	1,127,874	284
10-30	42,667	-	-	42,667	-
3-8	278,926	19,318	-	298,244	35,359
5	22,703	-	-	22,703	-
	<u>\$ 14,788,957</u>	<u>630,579</u>	<u>-</u>	<u>15,419,536</u>	<u>8,629,987</u>

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

**Schedule of Net Asset Detail (Continued)**  
**June 30, 2012**

	Assets			
	Balance June 30, 2011	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2012
Property and equipment:				
Water Fund:				
Buildings	\$ 1,433,026	-	-	1,433,026
Edr treatment plant	6,149,810	-	-	6,149,810
Pumping and filtering equipment	1,215,716	138,585	-	1,354,301
Distribution system	4,906,381	150,193	-	5,056,574
Construction in progress	290,187	650,589	(290,187)	650,589
Water tower	1,578,781	4,017	-	1,582,798
Machinery and equipment	786,654	8,730	-	795,384
Land	131,975	-	-	131,975
Consultant services	882,415	-	-	882,415
Furniture and fixtures	88,270	3,045	-	91,315
	<u>17,463,215</u>	<u>955,159</u>	<u>(290,187)</u>	<u>18,128,187</u>
Total	\$ <u>17,463,215</u>	<u>955,159</u>	<u>(290,187)</u>	<u>18,128,187</u>

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

See accompanying independent auditors' report.

Assets	Accumulated Depreciation/Amortization				Depreciated
Estimated Life In Years	Balance June 30, 2011	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2012	Cost June 30, 2012
10-30	\$ 980,067	29,247	-	1,009,314	423,712
40	1,863,669	153,745	-	2,017,414	4,132,396
25-40	715,355	29,784	-	745,139	609,162
40	2,459,081	125,224	-	2,584,305	2,472,269
	-	-	-	-	650,589
21-40	711,207	40,275	-	751,482	831,316
5-10	604,748	47,421	-	652,169	143,215
	-	-	-	-	131,975
5	860,338	5,379	-	865,717	16,698
10	62,114	5,302	-	67,416	23,899
	<u>\$ 8,256,579</u>	<u>436,377</u>	<u>-</u>	<u>8,692,956</u>	<u>9,435,231</u>

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

**Expense Detail  
June 30, 2012**

	Actual	Operating Budget
Operating expenses:		
Electric Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 41,079	46,986
Power plant:		
Fuel, coal and oil	187,117	25,000
Purchased power	4,950,901	5,466,850
Production:		
Labor	279,221	243,500
Chemicals	5,500	7,500
Maintenance:		
Labor	30,991	72,500
Supplies	11,162	15,000
Other:		
Meal allowance	-	25
Heat and light expense	19,358	-
Miscellaneous	25	1,249
Depreciation	345,333	345,000
Freight	-	50
Miscellaneous contracted service	76,385	89,500
Permits	20	4,000
Repairs	3,292	2,500
Insurance	42,986	50,000
Bond issuance cost	-	14,250
Education and training	12	14,250
	\$ 5,993,382	6,398,160
Total power, pumping and treatment plant		

(continued)

See accompanying independent auditors' report.

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

Expense Detail (Continued)  
June 30, 2012

	Actual	Operating Budget
Operating expenses:		
Electric Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 41,079	46,986
Maintenance of line:		
Labor	195,535	203,000
Supplies	18,895	26,000
Maintenance of park and street:		
Lighting:		
Labor	55,900	10,000
Supplies	2,207	20,000
Maintenance of meters:		
Labor	19,360	40,000
Supplies	16,336	22,000
Removing and resetting meters	35,959	42,000
Other:		
Depreciation	265,928	259,980
Vehicle supplies	725	1,650
Vehicle repair	14,580	4,000
Mileage	209	150
Lodging	947	500
Meals allowance	156	150
Freight	-	50
Miscellaneous contracted services	39,519	32,000
Repairs	1,111	1,500
Insurance	42,986	50,000
Chemicals	-	200
Miscellaneous	538	1,102
Books and instructional materials	272	500
Education and training	870	1,000
	\$ 753,112	762,768
Total transmission and distribution		

(continued)

See accompanying independent auditors' report.

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

Expense Detail (Continued)  
June 30, 2012

	Actual	Operating Budget
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 36,366	34,917
Maintenance of pumping equipment:		
Labor	264,516	270,375
Supplies	91,133	90,200
Outside analytical services	2,171	4,500
Pumping station expense	4,248	4,500
Insurance	39,545	42,000
Chemicals	112,106	115,000
Depreciation	226,470	222,000
Other pumping and treatment expenses:		
Permits	95	2,000
Education and training	621	1,200
Freight	14	500
Miscellaneous	310	1,090
Mileage	340	800
Lodging	273	500
Meal allowance	116	200
Miscellaneous contracted services	10,576	25,000
Repairs	2,969	3,000
Vehicle repairs and supplies	374	2,600
Total pumping and treatment plant	\$ 792,243	820,382

(continued)

See accompanying independent auditors' report.

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

**Expense Detail (Continued)**  
**June 30, 2012**

	Actual	Operating Budget
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 36,275	34,917
Maintenance of mains:		
Labor	207,980	199,000
Supplies	8,990	30,000
Maintenance of meters:		
Labor	6,486	15,300
Supplies	14,174	12,000
Removing and resetting meters	66,089	61,700
Maintenance of hydrants:		
Labor	18,698	13,000
Supplies	1,671	3,000
Other transmission and distribution:		
Vehicle expense	3,574	2,000
Depreciation	209,908	195,000
Permits	427	2,000
Education and training	1,055	1,000
Miscellaneous	4,309	4,815
Mileage	538	750
Lodging	808	750
Meal allowance	267	500
Freight	-	100
Miscellaneous contracted services	4,034	3,000
Repairs	2,333	2,800
Vehicle repairs	5,768	4,000
Analytical service	364	50
Insurance	39,545	42,000
	\$ 633,293	627,682
Total transmission and distribution	\$ 633,293	627,682

(continued)

See accompanying independent auditors' report.

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

**Expense Detail (Continued)  
June 30, 2012**

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds:		
General and administrative:		
Education and training	\$ 388	500
Advertising	2,743	2,500
Repairs	745	1,000
Business meals	240	550
Administrative salaries	203,814	203,994
Administrative supplies	6,914	7,000
Trustee salaries	7,200	7,200
Accounting and collecting labor	179,673	185,991
Computer maintenance and supplies	24,252	22,500
Maintenance agreements	10,751	10,600
Bank charges	7,119	4,500
Courtesy	2,264	1,800
Insurance	18,369	17,500
Dues, assessments and subscriptions	31,140	27,600
Meter reading wages	63,200	66,190
Meter reading supplies	182	500
Provision for doubtful accounts	42,511	40,000
Printing	4,666	5,100
First aid supplies	-	100
Postage	19,247	24,000
Telephone	14,836	16,300
Contractual services	6,950	10,000
Professional fees	32,928	25,500
Payroll tax expense	136,466	142,525
Pension expense (IPERS)	142,146	142,960
Group insurance	347,771	317,805
Mileage	2,743	3,000
Transportation and vehicle expense	35,441	30,100
Options 2000	24,923	76,000

(continued)

See accompanying independent auditors' report.

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

**Expense Detail (Continued)  
June 30, 2012**

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	13,647	8,000
Safety program	1,928	3,300
Miscellaneous	5,646	3,985
Lodging	474	1,500
Drug testing	1,240	600
Economic development	10,000	10,000
Depreciation	19,318	16,400
 Total general and administrative	 \$ 1,421,875	 1,437,100
 Allocated as follows:		
Electric Fund	\$ 1,181,436	
Water Fund	240,439	
 Total as above	 \$ 1,421,875	

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

See accompanying independent auditors' report.

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

Note Maturities  
June 30, 2012

Water Revenue Note Issued April 2, 2012			Electric Revenue Note Issued May 20, 2009		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	
2013	1.60 %	\$ 359,000	3.45 %	\$	475,000
2014	1.60	366,000	3.45		490,000
2015	1.60	373,000	3.45		505,000
2016	1.60	380,000	3.45		500,000
2017	1.60	385,000	3.45		310,000
2018	1.60	390,000	-		-
2019	1.60	400,000	-		-
2020	1.60	259,000	-		-
Total		\$ 2,912,000		\$	2,280,000

See accompanying independent auditors' report.

Offices located in:  
**Burlington**  
(319) 753-9877  
**Cedar Rapids**  
(319) 393-2374  
**Centerville**  
(641) 437-4296  
**Fairfield**  
(641) 472-6171  
**Mt. Pleasant**  
(319) 385-3026



Offices located in:  
**Muscatine**  
(563) 264-2727  
**Oskaloosa**  
(641) 672-2523  
**Ottumwa**  
(641) 683-1823  
**Pella**  
(641) 628-9411  
**Sigourney**  
(641) 622-1013

## TD&T Financial Group, P.C.

Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

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

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities, component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 2, 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 Mt. Pleasant Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mt. Pleasant Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

*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 a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-12 and II-B-12 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-C-12 to be a significant deficiency.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Mt. Pleasant Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mt. Pleasant, and other parties to whom Mt. Pleasant Municipal Utilities may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mt. Pleasant Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*TDE&T Financial Group, P.C.*

October 2, 2012

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

Schedule of Findings  
Year Ended June 30, 2012

Part I: Summary of the Independent Auditors' Results:

1. A qualified opinion was issued on the financial statements because Mt. Pleasant Municipal Utilities does not have an accurate listing of property and equipment.
2. A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.

(continued)

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

Schedule of Findings (Continued)  
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-12 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

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

Response – We will review accounts receivable.

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

II-B-12 Estimate for Unbilled Usage Receivables – During the audit, we determined that the estimate for unbilled usage receivables required a material adjustment.

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

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

Conclusion – Response accepted.

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

Response – We will consider this.

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

(continued)

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

Schedule of Findings (Continued)  
Year Ended June 30, 2012

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

Instances of Non-Compliance:

No matters were noted.

(continued)

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

**Schedule of Findings (Continued)  
Year Ended June 30, 2012**

Part III: Other Findings Related to Required Statutory Reporting:

III-A-12 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2012 exceeded the amount budgeted.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-12 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-C-12 Travel Expense – No expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

III-D-12 Business Transactions – Business transactions between the Utilities and relatives of Utilities' employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming, software maintenance, and software rewrite	\$ 25,088
Washington Electric Service owners Eugene and Deidre Zehr, father and mother-in-law of employee	Electrical supplies and contractual services	\$ 1,839
Reynolds Motors, Inc. owner Earl Reynolds father-in-law of employee	Truck tires	\$ 608

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

(continued)

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

Schedule of Findings (Continued)  
Year Ended June 30, 2012

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

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

Response – We will consider consulting legal counsel.

Conclusion – Response accepted.

III-E-12 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-12 Utility Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

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

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

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

Response – We have improved our documentation in the Utility Council minutes to comply with the Code requirements for closed sessions and the publication of minutes.

Conclusion – Response accepted.

III-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 Utilities' investment policy were noted.

III-H-12 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

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

Staff

This audit was performed by:

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