

WINTERSET MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

ADDITIONAL REQUIRED AUDITOR'S REPORTS

Year Ended December 31, 2011

WINTERSET MUNICIPAL UTILITIES

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WINTERSET MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dave LaGrange	Board Chairman	March 8, 2013
Gerrit Vrieze	Trustee	March 8, 2015
Kendall Kerns	Trustee	March 8, 2017
Stephen Scott Wesselmann	General Manager	Indefinite
Michael Wilkinson	Electric Superintendent	Indefinite
Steve Benshoof	Water Superintendent	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Winterset Municipal Utilities
Winterset, Iowa

We have audited the accompanying financial statements of the business type activities of the Winterset Municipal Utilities, as of and for the year ended December 31, 2011. These financial statements are the responsibility of Utilities officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 opinion.

As described in Note 1, these financial statements referred to in the following paragraph 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 our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Winterset Municipal Utilities as of December 31, 2011, and the 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, we have also issued our report dated July 11, 2012, on our consideration of the Winterset Municipal Utilities' 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 18 through 19 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the Winterset Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

D. Noyes, Smidgrass, Mickelson + Co., P.C.

July 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Winterset Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending December 31, 2011. We encourage readers to consider this information in conjunction with the Winterset Municipal Utilities financial statements, which follow.

Financial Highlights

In 2010, the Winterset Municipal Utilities total water fund cash balance increased by \$119,547 from the previous fiscal year. This increase is due to a water rate increase. Electric fund cash balance increased by \$834,199 from the previous fiscal year. This increase is due to a rate increase and bond proceeds.

In 2011, the Winterset Municipal Utilities total water fund cash balance increased by \$315,835 from the previous fiscal year. This increase is due to a water rate increase. Electric fund cash balance decreased by \$464,678 from the previous fiscal year. This decrease is due to expenditure of the previous year's bond proceeds.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows.

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Winterset Municipal Utilities financial activities.

The Winterset Municipal Utilities' financial statements consist of a statement of activities and changes in cash balances. The statement provided information about the activities of the water and electric as a whole, and presents an overall view of the water and electric finances.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statement.

Required supplementary information provides detailed information about the annual budget.

Basis of Accounting

The Winterset Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Winterset Municipal Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. The accounts of the Winterset Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance, receipts and disbursements.

Accordingly, the financial statements do not represent the 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 that limitation resulting from the use of cash basis accounting.

Reporting the Winterset Municipal Utilities Financial Activities

The statement of activities and changes in cash balance presents information showing how the Winterset Municipal Utilities cash balances changed during the most recent fiscal year.

The Winterset Municipal Utilities financial activities are displayed in the statement of activities and change in cash balance.

The business type activities of the Winterset Municipal Utilities include the collection of user charges for water and electric.

Fund Financial Statements

The Winterset Municipal Utilities has one kind of funds:

Proprietary funds account for the Winterset Municipal Utilities Enterprise Funds. The Winterset Municipal Utilities maintains two Enterprise Funds to provide separate information for the water and electric funds, considered to be major funds of the Winterset Municipal Utilities.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and change in cash balances.

Government-wide Financial Analysis

As noted earlier, the Winterset Municipal Utilities reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The Winterset Municipal Utilities does not report capital assets or depreciation on those assets as would be required by GAAP.

Business Type Activities

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Operating receipts:			
Charge for services	\$ 1,811,289	\$ 5,048,014	\$ 6,859,303
Operating disbursements:			
Business type activities	<u>1,089,449</u>	<u>5,069,199</u>	<u>6,158,648</u>
Excess (deficiency) of operating receipts over operating disbursements	\$ 721,840	\$ (21,185)	\$ 700,655
Total non-operating receipts (disbursements):	<u>(406,005)</u>	<u>(443,493)</u>	<u>(849,498)</u>
Net change in cash balances	\$ 315,835	\$ (464,678)	\$ (148,843)
Cash balances, beginning of year	<u>1,402,920</u>	<u>2,234,526</u>	<u>3,637,446</u>
Cash balances, end of year	<u>\$ 1,718,755</u>	<u>\$ 1,769,848</u>	<u>\$ 3,488,603</u>

Winterset Municipal Utilities
Combined Statement of Cash Transactions
Year Ended December 31, 2010

	<u>Enterprise Fund 2010</u>
Receipts:	
Use of money and property	\$ 13,627
Charges for service	6,713,688
Miscellaneous	<u>176,778</u>
Total receipts	<u>\$ 6,904,093</u>
Disbursements:	
Water	\$ 1,605,236
Electric	<u>7,107,895</u>
Total disbursements	<u>\$ 8,713,131</u>
Deficiency of receipts under disbursements	\$(1,809,038)
Other financing sources	
Bond/loan proceeds	<u>2,762,784</u>
Excess of receipts and other financing sources over disbursements and other financing uses	\$ 953,746
Balance, beginning of year	<u>2,683,700</u>
Balance, end of year	<u>\$ 3,637,446</u>

Budgetary Highlights

In accordance with the Code of Iowa, the Winterset Municipal Utilities annually adopts a budget following the required public notice and hearing for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures (required public notice followed by a public hearing). The Winterset Municipal Utilities did amend its budget during 2011.

Individual Major Business Type Fund Analysis

Water fund cash increased by \$315,835 from the previous fiscal year. This increase is due to a water rate increase.

Electric fund cash decreased by \$464,678 from the previous fiscal year. This decrease is due to expenditure of the previous year's bond proceeds.

Debt Administration

At year end, the Winterset Municipal Utilities had \$4,440,000 in bonds compared to \$5,090,000 the last fiscal year. Debt decreased as a result of payments made during the year.

Economic Factors and Next Year's Budget and Rates

The Winterset Municipal Utility Board considers many factors when setting the 2012 fiscal year budget. The Board has considered our continuing commitment to the Cedar Lake and its Watershed as well as infrastructure maintenance and improvement.

The Utility Board is also involved in the dredging of Cedar Lake, which would increase its capacity of water for Winterset.

The Utility Board is also involved in an underground project for the electric distribution system.

These factors all contributed when adopting the fiscal year 2012 budget. The budget includes all business type activities, including water and electric expenditures. Steps implemented by the Winterset Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2012 fiscal year budget.

Contacting the Winterset Municipal Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Winterset Municipal 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 Stephen Wesselmann at (515)462-1422.

FINANCIAL STATEMENTS

WINTERSET MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
Year Ended December 31, 2011

Exhibit A

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/programs:			
Business type activities:			
Water	\$ 1,625,670	\$ 1,811,289	\$ -
Electric	5,583,203	5,048,014	-
Total business type activities	\$ 7,208,873	\$ 6,859,303	\$ -
General receipts:			
Interest on investments			
Miscellaneous			
Intergovernmental			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			

The Notes to Financial Statements are an integral part of this statement.

<u>Program Receipts</u> Capital Grants, Contributions, and Restricted Interest	<u>Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets</u> Business Type Activities
\$ -	\$ 185,619
-	<u>(535,189)</u>
<u>\$ -</u>	<u>\$ (349,570)</u>
	\$ 6,998
	186,479
	<u>7,250</u>
	<u>\$ 200,727</u>
	\$ (148,843)
	<u>3,637,446</u>
	<u><u>\$ 3,488,603</u></u>

WINTERSET MUNICIPAL UTILITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES

As of and for the Year Ended December 31, 2011

Exhibit B

	Enterprise Fund		Total
	Water	Electric	
OPERATING RECEIPTS:			
Charge for service	\$ 1,811,289	\$ 5,048,014	\$ 6,859,303
TOTAL OPERATING RECEIPTS	\$ 1,811,289	\$ 5,048,014	\$ 6,859,303
OPERATING DISBURSEMENTS:			
Business type activities	\$ 1,089,449	\$ 5,069,199	\$ 6,158,648
TOTAL OPERATING DISBURSEMENTS	\$ 1,089,449	\$ 5,069,199	\$ 6,158,648
EXCESS OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	\$ 721,840	\$ (21,185)	\$ 700,655
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 3,911	\$ 3,087	\$ 6,998
Miscellaneous	126,305	60,174	186,479
Intergovernmental	-	7,250	7,250
Debt service	(536,221)	(514,004)	(1,050,225)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	\$ (406,005)	\$ (443,493)	\$ (849,498)
EXCESS OF RECEIPTS OVER/(UNDER) DISBURSEMENTS	\$ 315,835	\$ (464,678)	\$ (148,843)
OPERATING TRANSFERS	-	-	-
NET CHANGE IN CASH BALANCES	\$ 315,835	\$ (464,678)	\$ (148,843)
CASH BALANCES BEGINNING OF YEAR	1,402,920	2,234,526	3,637,446
CASH BALANCES END OF YEAR	\$ 1,718,755	\$ 1,769,848	\$ 3,488,603
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 175,755	\$ 41,074	\$ 216,829
Reserved for bond reserve funds	462,048	290,000	752,048
Reserved for improvements	1,062,782	357,519	1,420,301
Reserved for customer deposits	-	23,357	23,357
Unreserved	18,170	1,057,898	1,076,068
TOTAL CASH BASIS FUND BALANCES	\$ 1,718,755	\$ 1,769,848	\$ 3,488,603

The Notes to Financial Statements are an integral part of this statement.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1. Summary of Significant Accounting Policies

Reporting Entity:

The Winterset Municipal Utilities is a component unit of the City of Winterset, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member board of trustees appointed by the City Council. The Utilities is financially accountable to the City of Winterset. 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 primary government 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 primary government. The Winterset Municipal Utilities has no component units.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utilities' nonfiduciary net assets. Net assets are reported in two categories:

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 that do not meet the definition of the preceding category. 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. Property tax and other items not properly included among program receipts are reported instead as general receipts.

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1. Summary of Significant Accounting Policies (continued)

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

The Utilities reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

The Electric Fund accounts for the operation and maintenance of the electric system.

Basis of Accounting:

The Utilities maintains its 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.

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.

Budgets and Budgetary Accounting:

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

Cash and Time Deposits:

The Utilities pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Utilities makes disbursements and investments from the combined cash balance. Time deposits are stated at cost which approximates market. All interest is credited to the operating fund.

WINTERSET MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Restricted Assets:

The Utilities, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and investments) that can be used only to service outstanding debt.

Note 2. Cash and Pooled Investments

The Utilities' deposits in banks at December 31, 2011, were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificate 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 Utilities' investments consisted solely of certificates of deposit during the year ended December 31, 2011.

Note 3. Notes Payable

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

Year Ending <u>December 31,</u>	<u>Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 670,000	\$ 162,855
2013	365,000	138,935
2014	350,000	127,235
2015	365,000	116,490
2016	375,000	104,363
2017-2021	1,860,000	302,012
2022-2023	<u>455,000</u>	<u>28,315</u>
	<u>\$4,440,000</u>	<u>\$ 980,205</u>

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 3. Notes Payable (continued)

The resolutions providing for the issuance of the water and electric 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. Sufficient monthly transfers shall be made to a separate Water Revenue Sinking Account and a separate Electric Revenue Sinking Account for the purpose of making the note principal and interest payments when due.
- c. A reserve account shall be maintained solely for the purpose of paying principal or interest on the notes if the sinking account balance is insufficient to make such payments. The sum of \$200,000 shall be deposited into a Water Revenue Reserve Account from the proceeds of the issue. Thereafter, on the first day of each month, \$5,000 shall be deposited into the water reserve account until the balance reaches \$400,000. The sum of \$247,500 shall be deposited into an Electric Revenue Note Reserve Account from the proceeds of the issue. Thereafter, in each month, 25% of the required transfer to the sinking fund shall be deposited into this reserve account. Whenever either sum has been reduced by an expenditure, all of the net water and electric revenues after first making the required deposits into the sinking account shall be deposited to these accounts until the original balances are replenished.
- d. After first making the required payments into the sinking account and the required payments, if any, into the reserve account, and the reserve account contains the required balance, the sum of \$5,000 shall be deposited into a Water System Improvement Account on the first day of each month of each year until the sum on deposit is equal to \$300,000. The sum of \$3,500 shall be deposited into an Electric System Improvement Account each month until the sum on deposit is equal to \$200,000.

WINTERSET MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

Note 3. Notes Payable (continued)

- e. All funds remaining in the Water Account after the payment of all maintenance and operating expenses and required transfers shall be placed in a Water Revenue Surplus Account. As long as the sinking account and reserve account are fully funded, the remaining portion of the annual accumulation in the surplus account may be made available to the Utilities as the board may from time to time direct.

Note 4. Pension and Retirement Benefits

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

Plan members are required to contribute 4.5% of their annual salary and the Utilities is required to contribute 6.9% of annual payroll. Effective July 1, 2011, the contribution rates changed to 5.38% for members and 8.07% for the Utilities. Contribution requirements are established by state statute. The Utilities' total contribution to IPERS for the years ended December 31, 2011, 2010, and 2009 were \$55,532, \$47,182, and \$45,623 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

Utility 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 Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to employees at December 31, 2011, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 42,908
Sick leave	<u>40,078</u>
Total	<u>\$ 82,986</u>

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 5. Compensated Absences (continued)

This liability has been computed based on rates of pay as of December 31, 2011. Sick leave time is cancelled when an employee leaves his/her employment with the Utility.

Note 6. 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. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Jointly Governed Organization

The Utilities participate in a jointly governed organization that provides goods or services to the customers of the Utilities but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating government. The Utility is a member of the Community Advisory Committee of Iowa Rural Water and the Madison County Lake Commission.

Note 8. Joint Venture

The Utilities also participate in a joint venture that provides goods or services to the citizenry of the Utilities and meets the criteria of a joint venture because there is an ongoing financial interest or responsibility by the participating governments. The Utilities are a member of the South Iowa Municipal Electric Cooperative Association Board (SIMECA).

Note 9. Electric Generation Equipment Lease Purchase Agreement

In February 2002, the Utilities entered into a lease purchase agreement to acquire new electric generation equipment with South Iowa Municipal Electric Cooperative Association (SIMECA) with a total cost of \$2,162,266. SIMECA has issued revenue bonds to pay for the project and the Utility is not obligated for any of SIMECA's payments. The Utility is required to make monthly payments to SIMECA for the Utility's portion of the cost of the equipment related to the revenue bonds. The payment schedule is as follows:

WINTERSET MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 9. Electric Generation Equipment Lease Purchase Agreement (continued)

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 154,000	\$ 49,644	\$ 203,644
2013	160,000	41,871	201,871
2014	169,000	33,562	202,562
2015	176,000	24,676	200,676
2016	186,000	15,218	201,218
2017	<u>195,000</u>	<u>5,168</u>	<u>200,168</u>
	<u>\$1,040,000</u>	<u>\$170,139</u>	<u>\$1,210,139</u>

Note 10. Major Customer

A material part of the Utility's Electric and Water charges for services revenue is from five major customers. The loss of any one of these customers may not have a materially adverse effect on the Utility, however, the loss of any combination of these major customers could have a materially adverse effect on the Utility. During the year ended December 31, 2011, these customers accounted for approximately 17% of utility's electric revenue and 19% of the Utility's water revenue.

Note 11. Litigation

The Utility is subject to pending litigation seeking a writ of certiorari to set aside a Board decision. At the present, there is currently no financial loss to the Board, other than the cost of the litigation.

Note 12. Subsequent Events

In January 2012, the Utility approved repairs at the water treatment plant in an amount not to exceed \$83,860.

In June 2012, the Utility approved an engineering contact for spillway improvements and dredging project in the amount of \$272,400.

REQUIRED SUPPLEMENTARY INFORMATION

WINTERSET MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET
 Year Ended December 31, 2011

	Actual	Less Funds not Required to be Budgeted
RECEIPTS:		
Use of money and property	\$ 6,998	\$ -
Intergovernmental	7,250	-
Charges for services	6,859,303	-
Miscellaneous	186,479	-
Total receipts	\$ 7,060,030	\$ -
DISBURSEMENTS:		
Business type activities:		
Water	\$ 1,625,670	\$ -
Electric	5,583,203	-
Total disbursements	\$ 7,208,873	\$ -
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (148,843)	\$ -
OTHER FINANCING SOURCES, NET	-	-
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ (148,843)	\$ -
BALANCE, beginning of year	3,637,446	-
BALANCE, end of year	\$ 3,488,603	\$ -

The Notes to Financial Statements are an integral part of this statement.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 6,998	\$ 14,500	\$ 14,500	\$ (7,502)
7,250	-	-	7,250
6,859,303	6,176,200	6,176,200	683,103
186,479	131,400	131,400	55,079
<u>\$ 7,060,030</u>	<u>\$ 6,322,100</u>	<u>\$ 6,322,100</u>	<u>\$ 737,930</u>
\$ 1,625,670	\$ 1,714,912	\$ 1,714,912	\$ 89,242
5,583,203	6,427,854	6,427,854	844,651
<u>\$ 7,208,873</u>	<u>\$ 8,142,766</u>	<u>\$ 8,142,766</u>	<u>\$ 933,893</u>
\$ (148,843)	\$ (1,820,666)	\$ (1,820,666)	\$ 1,671,823
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (148,843)	<u>\$ (1,820,666)</u>	<u>\$ (1,820,666)</u>	<u>\$ 1,671,823</u>
<u>3,637,446</u>			
<u>\$ 3,488,603</u>			

WINTERSET MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
December 31, 2011

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

The Utilities' budget is submitted with the City of Winterset's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Utilities' budget is included in the business type activities function. The Utilities budget was not amended during the fiscal year.

OTHER SUPPLEMENTARY INFORMATION

WINTERSET MUNICIPAL UTILITIES
 SCHEDULE OF INDEBTEDNESS
 Year Ended December 31, 2011

	<u>Date Of Issue</u>	<u>Interest Rates</u>	<u>Schedule 1 Amount Originally Issued</u>
<u>OBLIGATION</u>			
Revenue Notes:			
Water Refunding	11-01-02	2.80-4.80%	\$ 3,515,000
Water Revenue	5-15-08	3.60-4.25%	1,535,000
Electric Revenue	1-15-10	1.00-4.15%	2,815,000
Total			
Lease Purchase Agreement:			
Electric Generation Equipment	03-01-02	2.70-5.30%	\$ 2,162,266

See accompanying independent auditor's report.

<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 965,000	\$ -	\$ 425,000	\$ 540,000	\$ 43,933	\$ -
1,535,000	-	-	1,535,000	61,390	-
<u>2,590,000</u>	<u>-</u>	<u>225,000</u>	<u>2,365,000</u>	<u>79,125</u>	<u>-</u>
<u>\$ 5,090,000</u>	<u>\$ -</u>	<u>\$ 650,000</u>	<u>\$ 4,440,000</u>	<u>\$ 184,448</u>	<u>\$ -</u>
<u>\$ 1,187,000</u>	<u>\$ -</u>	<u>\$ 147,000</u>	<u>\$ 1,040,000</u>	<u>\$ 56,908</u>	<u>\$ -</u>

WINTERSET MUNICIPAL UTILITIES
NOTE MATURITIES
December 31, 2011

Schedule 2

<u>Year Ending December 31,</u>	Revenue Notes			
	Water Refunding Issued November 1, 2002		Water Refunding Issued May 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2012	4.60%	\$ 440,000		\$ -
2013	4.80%	100,000	3.60%	100,000
2014		-	3.75%	180,000
2015		-	3.85%	190,000
2016		-	3.95%	195,000
2017		-	4.05%	205,000
2018		-	4.10%	215,000
2019		-	4.15%	220,000
2020		-	4.25%	230,000
		\$ 540,000		\$ 1,535,000

<u>Year Ending December 31,</u>	Revenue Notes		
	Electric Issued January 15, 2010		Total Revenue Notes
	Interest Rates	Amount	
2012	1.60%	\$ 230,000	\$ 670,000
2013	2.00%	165,000	365,000
2014	2.35%	170,000	350,000
2015	2.75%	175,000	365,000
2016	3.00%	180,000	375,000
2017	3.30%	185,000	390,000
2018	3.50%	190,000	405,000
2019	3.65%	195,000	415,000
2020	3.90%	205,000	435,000
2021	4.00%	215,000	215,000
2022	4.10%	225,000	225,000
2023	4.15%	230,000	230,000
		\$ 2,365,000	\$ 4,440,000

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES
 INFORMATION REQUIRED BY THE NOTE RESOLUTIONS - UNAUDITED
 December 31, 2011

Schedule 3

The following insurance policies were in force at December 31, 2011
 (Some amounts may include coverage for the City also.)

<u>Insurer</u>	<u>Coverage</u>		<u>Amount</u>
Employers Mutual Casualty Company	Property, including buildings, generation equipment and other contents	4/1/11 - 4/1/12	\$ 27,562,347
	90% Co-insurance Deductible		1,000
	General liability - Per occurrence	4/1/11 - 4/1/12	1,000,000
	General aggregate	4/1/11 - 4/1/12	2,000,000
	Products/Operation aggregate	4/1/11 - 4/1/12	2,000,000
	Personal and/or advertising injury	4/1/11 - 4/1/12	1,000,000
	Fire damage	4/1/11 - 4/1/12	100,000
	Medical expense	4/1/11 - 4/1/12	5,000
	Automobile - liability	4/1/11 - 4/1/12	1,000,000
	Boiler and machinery - Property damage Deductible	4/1/11 - 4/1/12	1,000,000 1,000
	Umbrella liability - Per occurrence	4/1/11 - 4/1/12	5,000,000
	Aggregate	4/1/11 - 4/1/12	5,000,000
	Retained limit	4/1/11 - 4/1/12	10,000
	Linebacker declaration - Per occurrence	4/1/11 - 4/1/12	1,000,000
	Aggregate	4/1/11 - 4/1/12	1,000,000
	Retained limit	4/1/11 - 4/1/12	2,500
	Inland Marine - Contractors equipment	4/1/11 - 4/1/12	324,605
	Deductible	4/1/11 - 4/1/12	250
	Workmen's compensation	4/1/11 - 4/1/12	500,000
	Fidelity bond - Per employee	4/1/11 - 4/1/12	100,000
	Forgery or alteration	4/1/11 - 4/1/12	100,000
	Deductible	4/1/11 - 4/1/12	1,000
	Commercial crime - Inside premises	4/1/11 - 4/1/12	100,000
Outside premises	4/1/11 - 4/1/12	100,000	

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES
INFORMATION REQUIRED BY THE NOTE RESOLUTIONS - UNAUDITED
December 31, 2011

Schedule 3
(continued)

Rates in effect at December 31, 2011

1. Electric rates:

Residential -	\$11.00 minimum plus: \$.109 per kilowatt hour (kwh)
Commercial -	\$17.00 minimum plus: \$.106 per kwh
Industrial -	\$20.00 minimum plus: \$.046 per kwh
Rural service -	\$11.00 minimum plus: \$.109 per kwh

2. Water rates:

All service classes -	First 100 cubic feet - minimum \$10.20 Next 400 cubic feet at \$8.35 per 100 cubic feet (ccf) Next 500 cubic feet at \$7.65 per ccf Next 1,000 cubic feet at \$7.15 per ccf Next 48,000 cubic feet at \$5.85 per ccf Balance at \$5.00 per ccf
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See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the business-type activities of Winterset Municipal Utilities as of and for the year ended December 31, 2011, which collectively comprise the Winterset Municipal Utilities' basic financial statements and have issued our report thereon dated July 11, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards generally and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Winterset 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 the Winterset Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Winterset Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Winterset 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Winterset Municipal Utilities response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Winterset Municipal Utilities response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the management, the audit committee, Board of Trustees, and other parties to whom the Winterset Municipal Utilities may report and is not intended to be and should not be used by anyone other than these specified parties.

Drapen, Smidgrasso, Mickelheim + Co., P.C.

July 11, 2012

WINTERSET MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended December 31, 2011

Reportable Conditions:

2011-A Segregation of duties - A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Winterset Municipal Utilities.

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 review the procedures as suggested.

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

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2011.
- (2) Certified Budget - Disbursements during the year ended December 31, 2011, did not exceed the amounts budgeted in the Business-type function.
- (3) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (5) Business Transactions - No business transactions between the Utilities and Utilities employees or officials were noted.
- (6) Bond Coverage - Surety bond coverage of Utility 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.

- (7) Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but was not.

The minutes for the Board of Trustees have been documented and recorded as required, however, the original minutes have not been signed by the Board Chairman as required by the Code of Iowa Chapter 380.7.

Recommendation – The Board should ensure that all minutes are properly signed as required by the Code of Iowa as they are approved.

Response – We will make every effort to make sure the minutes are signed in a timely manner.

Conclusion – Response acknowledged.

The Board went into closed session on four separate occasions during fiscal year 2011. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – The General Manager will include the proper Chapter and Section of the Code of Iowa to the minutes for a closed session.

Conclusion – Response acknowledged.

The Utility published all gross salaries as required by an Attorney General's opinion dated April 12, 1979.

- (8) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- (9) Revenue Notes - No violations of the resolutions providing for the issuance of the water and electric revenue notes were noted.
- (10) Unclaimed Property – The Utilities are required under Chapter 556.1(12) of the Code of Iowa to submit on an annual basis any unclaimed property held by the Utility. The Utility has not turned over the unclaimed property to the State as required under this section.

Recommendation – The Utilities should as soon as possible complete the required documents to properly submit any unclaimed property held to the State of Iowa as required under Chapter 556.1(12) of the Code of Iowa.

Response – The General Manager will follow up on this filing to ensure that it is completed.

Conclusion – Response acknowledged.