

MARSHALLTOWN WATER WORKS

**Independent Auditors' Reports
Financial Statements and
Supplementary Information
Schedule of Findings**

June 30, 2012 and 2011

MARSHALLTOWN WATER WORKS

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MARSHALLTOWN WATER WORKS

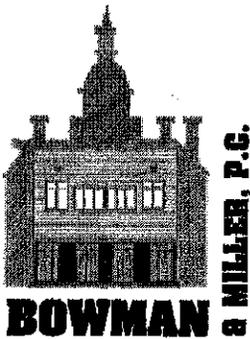
Officials

(Prior to May 1)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Trustee – Chairperson	May 1, 2012
Jerry Young	Trustee	May 1, 2016
Kenneth Vinson	Trustee	May 1, 2017
Steve Sincox	CEO/General Manager	Indefinite
Tim Wilson	Director of Water Products	Indefinite
Pat Willey	Director of Finance	Indefinite

(After May 1)

Kenneth Vinson	Trustee – Chairperson	May 1, 2017
Jerry Young	Trustee	May 1, 2016
Laura Sopher	Trustee	May 1, 2018
Steve Sincox	CEO/General Manager	Indefinite
Tim Wilson	Director of Water Products	Indefinite
Pat Willey	Director of Finance	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report

To the Board of Trustees
Marshalltown Water Works
Marshalltown, Iowa

We have audited the accompanying statements of net assets of the Marshalltown Water Works, Marshalltown, Iowa, a component unit of the City of Marshalltown, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Marshalltown Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements referred to above present only the Marshalltown Water Works, a component unit of the City of Marshalltown and do not intend to present fairly the financial position of the City of Marshalltown, Iowa, as of June 30, 2012 and 2011, and the changes in its financial position and cash flows of its proprietary fund types in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshalltown Water Works, Marshalltown, Iowa, a component unit of the City of Marshalltown, as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2012, on our consideration of the Marshalltown Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts 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 audits.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 6 and 22 through 24 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information included in pages 25 through 34 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 17, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Marshalltown Water Works' Annual Financial Report presents our discussion of the Water Works' financial performance during the fiscal year ending June 30, 2012.

Use this discussion in conjunction with the financial report to better understand the Water Works' financial condition, which follows this section.

2012 FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES

- ◆ Operating revenues of the Water Works increased 5.9%, or approximately \$180,000, from fiscal year 2011 to fiscal year 2012. An increase in water usage by irrigation and wholesale customers combined with the dry conditions were responsible for this increase.
- ◆ Operating expenses of the Water Works increased 6.2%, or approximately \$176,000, in fiscal year 2012 from fiscal year 2011. Chemical expenses increased approximately \$175,000 due to an increase in lime residuals removal and increased chemical costs.
- ◆ The Water Works net assets increased 1.3% or approximately \$167,000 due primarily to an increase in operating revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Water Works' financial activities.

These financial statements consist of Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows. These provide information about the activities of the Marshalltown Water Works and present an overall view of the Water Works' finances.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Water Works' budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplemental information provides detailed information about the Statements of Net Assets, expense accounts and debt of the Water Works.

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The Statements of Net Assets include all of the Water Works' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

The Statements of Net Assets reports the Water Works' net assets and how they have changed. Net assets (the difference between the Water Works' assets and liabilities) are one way to measure the Water Works' financial health or position. Over time, increases and decreases in the Water Works' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The Water Works is considered a business type activity because it charges fees to customers to cover the costs of all services it provides.

FINANCIAL ANALYSIS OF THE WATER WORKS AS A WHOLE

- ◆ Operating revenues for the Water Works increased \$179,931 over fiscal year 2011 and operating expenses increased \$175,745 resulting in operating income of \$192,311. After all non-operating income and expenses were recorded; the Water Works reported a net income of \$167,416 for the year ending June 30, 2012.
- ◆ The Water Works' operating revenues were \$3,211,232, which resulted in an increase from the previous year and was approximately 95% of the budgeted revenues. Expenses for fiscal year 2012 were slightly under 90% of the budgeted amount approved by the Board of Trustees in March 2011.

DEBT ADMINISTRATION

- ◆ During fiscal year 2012, the Marshalltown Water Works paid \$226,089 in principal and interest towards our water revenue capital loan note. The remaining principal balance is \$440,000. The debt service coverage ratio was 3.60, well above the required 1.25 ratio.

CONDITIONS OF THE WATER WORKS INFRASTRUCTURE

- ◆ The Marshalltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshalltown Water Works spent most of 2012 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received complaints on pressure or quality and as those complaints increase in a certain area we review the possibility of upgrading those systems to meet the demands of our customers.
- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.
- ◆ During fiscal year 2012 one of our three finished water reservoirs was cleaned and inspected. The remaining two reservoirs are scheduled to be cleaned and inspected during fiscal year 2013.
- ◆ During fiscal year 2012 three vehicles were replaced.
- ◆ Two wells were raised and rehabilitated during fiscal year 2012. This is part of a multi-year project to raise all wells to the same elevation, thereby protecting them from a 100 year flood occurrence.
- ◆ One additional well is planned to be raised and rehabilitated during fiscal year 2013.

- ◆ Other planned system upgrades for fiscal year 2013 include repairs to the exterior of the office building, vehicle replacement and water main replacement.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- ◆ In September 2010 HDR Engineering Inc. reported the findings of their Comprehensive Water Rate Study. They recommended to the Board of Trustees to raise rates in order to achieve our revenue requirements over a 5 year planning horizon. The first rate increase of 6.5% was implemented in October 2010. The purpose of the rate increase was to replenish the operating and capital reserves as well as fully fund our 5 year capital improvement plan.
- ◆ The second of three recommended 6.5% rate increases was approved by the board of trustees in May 2012, effective for fiscal year 2013. A rate increase is not planned for fiscal year 2014.

CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide customers, investors, and creditors of the Marshalltown Water Works with a general overview of its financial situation and to demonstrate the accountability of the Water Works for the money it receives. If you have any questions about this report, you may contact either Steve Sincox or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

MARSHALLTOWN WATER WORKS

Statements of Net Assets June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
<u>ASSETS:</u>			
Current assets:			
Cash and cash equivalents	\$ 718,163	523,445	194,718
Receivables:			
Customer	293,906	263,880	30,026
Unbilled water usage	78,844	-	78,844
Other receivables	36,124	38,230	(2,106)
Prepaid expenses	36,639	34,982	1,657
Restricted cash and cash equivalents	391,536	392,475	(939)
Total current assets	<u>1,555,212</u>	<u>1,253,012</u>	<u>302,200</u>
Investments:			
Certificates of deposit	300,000	300,000	-
Capital reserve	403,176	401,345	1,831
Total investments	<u>703,176</u>	<u>701,345</u>	<u>1,831</u>
Capital assets:			
Capital assets	24,279,664	24,032,161	247,503
Accumulated depreciation	(12,540,542)	(11,963,587)	(576,955)
Net capital assets	<u>11,739,122</u>	<u>12,068,574</u>	<u>(329,452)</u>
Total assets	\$ <u>13,997,510</u>	<u>14,022,931</u>	<u>(25,421)</u>

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
<u>LIABILITIES:</u>			
Current liabilities:			
Accounts payable	\$ 59,809	57,977	1,832
Payable from restricted assets:			
Landfill fees	10,501	12,227	(1,726)
Sewer fees	202,948	216,566	(13,618)
Storm sewer fees	21,980	25,338	(3,358)
Customer deposits - sewer	77,510	69,170	8,340
Customer deposits - water	57,540	51,400	6,140
Accrued liabilities	115,536	115,164	372
Current portion of long-term debt	215,000	205,000	10,000
Total current liabilities	<u>760,824</u>	<u>752,842</u>	<u>7,982</u>
Long-term liabilities:			
Capital loan note	440,000	645,000	(205,000)
Less: current portion	(215,000)	(205,000)	(10,000)
Net OPEB liability	47,386	33,205	14,181
Total long-term liabilities	<u>272,386</u>	<u>473,205</u>	<u>(200,819)</u>
Total liabilities	<u>1,033,210</u>	<u>1,226,047</u>	<u>(192,837)</u>
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	11,299,122	11,423,574	(124,452)
Restricted for revenue note retirement	229,300	225,963	3,337
Unrestricted:			
Board designated for capital improvements	403,176	401,345	1,831
Undesignated	1,032,702	746,002	286,700
Total net assets	<u>12,964,300</u>	<u>12,796,884</u>	<u>167,416</u>
Total liabilities and net assets	<u>\$ 13,997,510</u>	<u>14,022,931</u>	<u>(25,421)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,356,850	1,331,710	25,140
Multi-family	179,976	172,418	7,558
Commercial	446,971	398,427	48,544
Irrigation	87,577	48,102	39,475
Industrial	458,663	436,494	22,169
Wholesale	554,103	485,221	68,882
Non-metered	1,018	582	436
City contract services	62,187	62,199	(12)
Penalties	33,753	28,071	5,682
Customer service	25,907	64,671	(38,764)
Testing laboratory	4,227	3,406	821
Total operating revenues	<u>3,211,232</u>	<u>3,031,301</u>	<u>179,931</u>
Operating expenses:			
Salaries and wages	929,585	949,889	(20,304)
Payroll taxes and benefits	344,843	325,169	19,674
Utilities	240,401	256,996	(16,595)
Fuels	23,405	17,731	5,674
Supplies	70,099	84,936	(14,837)
Maintenance	70,922	62,204	8,718
Chemicals	608,949	434,300	174,649
Contract services	3,522	15	3,507
Insurance	58,815	53,961	4,854
Professional fees	13,742	25,430	(11,688)
Other operating expense	33,696	31,042	2,654
Depreciation	620,942	601,503	19,439
Total operating expenses	<u>3,018,921</u>	<u>2,843,176</u>	<u>175,745</u>
Operating income	<u>192,311</u>	<u>188,125</u>	<u>4,186</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Assets (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	8,879	10,709	(1,830)
Rentals	300	1,800	(1,500)
Miscellaneous income	10,004	1,595	8,409
Gain/(loss) on disposal of equipment	457	-	457
Interest expense	(21,089)	(27,463)	6,374
Miscellaneous expense	(23,446)	(22,690)	(756)
Total non-operating revenues (expenses)	<u>(24,895)</u>	<u>(36,049)</u>	<u>11,154</u>
Change in net assets	167,416	152,076	15,340
Net assets, beginning	<u>12,796,884</u>	<u>12,644,808</u>	<u>152,076</u>
Net assets, ending	<u>\$ 12,964,300</u>	<u>12,796,884</u>	<u>167,416</u>

MARSHALLTOWN WATER WORKS

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,104,468	2,998,314
Cash payments to suppliers for goods and services	(1,121,736)	(961,347)
Cash payments to employees and professional contractors for services	<u>(1,279,918)</u>	<u>(1,274,825)</u>
Net cash provided by operating activities	<u>702,814</u>	<u>762,142</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	600,000	701,590
Purchase of investments	(601,831)	(802,073)
Investment income	8,879	10,709
Receipt of rental income	300	1,800
Other non-operating expenses	<u>(12,985)</u>	<u>(21,095)</u>
Net cash used in investing activities	<u>(5,637)</u>	<u>(109,069)</u>
Cash flows from capital and related financing activities:		
Payment on revenue bond	(205,000)	(200,000)
Net OPEB liability	14,181	10,846
Interest paid on revenue bond/note	(21,089)	(27,463)
Acquisition of capital assets	<u>(291,490)</u>	<u>(311,268)</u>
Net cash used by financing activities	<u>(503,398)</u>	<u>(527,885)</u>
Net change in cash and cash equivalents	193,779	125,188
Cash and cash equivalents at beginning of year	<u>915,920</u>	<u>790,732</u>
Cash and cash equivalents at end of year	<u>\$ 1,109,699</u>	<u>915,920</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 192,311	188,125
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	620,942	601,503

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued)

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
(Increase) decrease in assets:		
Accounts receivable	(30,026)	(23,566)
Unbilled water usage	(78,844)	-
Other receivables	2,106	(9,421)
Prepaid expenses	(1,657)	(4,682)
Increase (decrease) in liabilities:		
Accounts payable	1,832	6,791
Payable to sewer fund	(13,618)	(6,794)
Payable to landfill fund	(1,726)	(159)
Payable to storm sewer fund	(3,358)	(547)
Customer deposits-sewer	8,340	5,365
Customer deposits-water	6,140	4,775
Accrued liabilities	372	752
	<hr/>	<hr/>
Net cash provided by operating activities	\$ <u>702,814</u>	<u>762,142</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements June 30, 2012 and 2011

Note 1. Summary of Significant Accounting Policies

The Marshalltown Water Works (the Water Works) is a component unit of the City of Marshalltown, as determined by criteria specified by the Governmental Accounting Standards Board. The Marshalltown Water Works is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria. They account for operations that are financed and operated in a manner similar to a private business enterprise where the expenses (including depreciation) of providing water services to the City of Marshalltown on a continuing basis are financed through user charges.

The financial statements of the Water Works have been prepared on an accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Water Works applies 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.

A. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Water Works considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

B. Customer Accounts and Unbilled Usage

Accounts receivable represent uncollected amounts billed for water usage at June 30, 2012 and 2011. Because of the Organization's policy to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded. Unbilled usage for service consumed between periodic schedule billing dates is estimated as revenue in the period in which the service is provided.

C. Budgets

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

D. Estimates

The Water Works uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets

Additions to the plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Reportable capital assets are defined by the Water Works 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>
Plants, wells, storage and distribution	\$5,000
Meters	5,000
Equipment and vehicles	1,000

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Plants, wells and storage	10-40 years
Distribution property	50-99 years
Meters	10-20 years
Vehicles	5 years
Equipment	7-10 years

F. 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 and amounts due to the City of Marshalltown for collection of sewer, landfill and storm sewer fees.

Note 2. Cash and Pooled Investments

The Water Works' deposits at June 30, 2012 and 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 2. Cash and Pooled Investments (Continued)

The Water Works 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 on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposits at June 30, 2012 and 2011.

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

Note 3. Water Revenue Capital Loan Note

Annual debt service requirements to maturity for the revenue capital loan note is as follows:

	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2012
Water revenue note, series 2009	Apr 15, 2009	3.25%	June 1, 2014	\$180,000-225,000	\$1,025,000	<u>\$440,000</u>

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 215,000	13,813	228,813
2014	225,000	7,312	232,312
Total	<u>\$ 440,000</u>	<u>21,125</u>	<u>461,125</u>

The Water Works has pledged future water customer revenues, net of specified operating expenditures, to repay the \$1,025,000 water revenue note issued in April, 2009. Proceeds from the note provided financing for constructing a new water storage tank.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 3. Water Revenue Capital Loan Note (Continued)

The note is payable solely from the water customer net revenues and is payable through 2014. Annual principal and interest on the note is expected to require less than 50 percent of net revenues. The total principal and interest remaining to be paid on the note is \$461,125.

The resolutions providing for the issuance of the revenue note included the following provisions:

- (a) The note 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 fund.
- (b) Sufficient monthly transfers shall be made to a sinking account for the purpose of making the note principal and interest payments when due.
- (c) The Board will provide for the establishment of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the Water Works and to have a balance of net revenues equal to at least 125% of the average annual payments of principal and interest on the note.

No interest was capitalized for 2012 and 2011.

Note 4. Compensated Absences

Water Works employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The liability is recorded in the statement of net assets based on current rates of pay.

Note 5. Pension and Retirement Benefits

The Water Works maintains the Marshalltown Water Works Supplemental Retirement and Pension Plan, which is a single employer defined benefit plan administered by United Bank and Trust. The Water Works' payrolls covered by the Plan for the years ended June 30, 2012, 2011, and 2010 were \$479,708, \$455,397, and \$547,402, respectively, while total payrolls for 2012, 2011 and 2010 were \$932,439, \$947,584 and \$971,669, respectively.

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 2003. The Board of Trustees has the authority to amend the Plan at any time.

Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of their average monthly compensation multiplied by the number of years of consecutive service for the years ended 2012, 2011 and 2010. Service prior to January 1, 1986 shall be limited to 25 years. Benefits are fully vested on reaching 10 or more years of credited service. The Plan also provides death and disability benefits.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 5. Pension and Retirement Benefits (Continued)

The Plan is an actuarially funded system. The pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases. Significant actuarial assumptions used in the determination of the contribution and where applicable, in arriving at the benefit obligation, include a 7% investment return, 4% projected salary increases, retirement at age 65, and mortality based on the 1983 group annuity mortality table.

The pension benefit obligations as of April 1, 2012, 2011 and 2010 were as follows:

	<u>2012*</u>	<u>2011*</u>	<u>2010*</u>
Vested:			
Active	\$ 236,878	208,250	185,199
Retired	<u>1,707,155</u>	<u>1,794,280</u>	<u>1,689,265</u>
Total vested	1,944,033	2,002,530	1,874,464
Employer financed	<u>585,674</u>	<u>516,654</u>	<u>414,488</u>
Total pension benefit obligations	\$ <u>2,529,707</u>	<u>2,519,184</u>	<u>2,288,952</u>
Net assets available for benefits at market value	\$ 1,183,518	1,229,982	1,188,036
(cost 2012: \$1,080,957)			
(cost 2011: \$1,140,437)			
(cost 2010: \$1,195,399)			
Prepaid (unfunded) pension	\$ (1,346,189)	(1,289,202)	(1,100,916)

*An actuarial valuation was performed on April 1, 2011. Estimated values have been calculated as of April 1, 2012 and April 1, 2010.

The Water Works' funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The frozen entry age actuarial cost method is used to determine annual plan costs. The employer contribution rate for the years ended June 30, 2012 and 2011 was 7.25% plus an additional \$3,000 per bi-weekly payroll and the employer contribution rate for the year ended June 30, 2010 was 6.75% plus an additional \$3,000 per bi-weekly payroll. The employee contribution rate for the years ended June 30, 2012 and 2011 was 4% and the employee contribution rate for the year ended June 30, 2010 was 3.75%. Contributions paid by the Water Works for the years ended June 30, 2012, 2011 and 2010 totaled \$112,779, \$111,885 and \$114,091, respectively, and the contributions paid by employees totaled \$19,188, \$18,705 and \$20,528, respectively.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 5. Pension and Retirement Benefits (Continued)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. While ten-year trend information is not available, three-year trend information, for the years ended April 1, is presented as follows:

	<u>2012*</u>	<u>2011*</u>	<u>2010*</u>
Net assets available for benefits as percentages of the pension benefit obligations	47%	49%	52%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(281%)	(283%)	(201%)
Employer contributions (in accordance with actuarially determined requirements) as percentages of covered payroll	23.51%	24.38%	21%
Actuarial value of assets as a percentage of the actuarial accrued liability	45%	47%	50%
Ratio of the unfunded accrued liability to annual covered payroll	300%	302%	218%
Total unfunded accrued liability	\$ 1,436,961	1,375,963	1,195,187
Actuarial accrued liability	\$ 2,620,479	2,605,945	2,383,223
Actuarial value of plan assets	\$ 1,183,518	1,229,982	1,188,036

*An actuarial valuation was performed on April 1, 2011. Estimated values have been calculated as of April 1, 2012 and April 1, 2010.

For employees who choose not to participate in the Marshalltown Water Works' Supplemental Retirement and Pension Plan, the Water Works 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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 5. Pension and Retirement Benefits (Continued)

Plan members are required to contribute 5.38% of their annual covered salary and the Water Works is required to contribute 8.07% of covered payroll. Contribution requirements are established by state statute. The Water Works' contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$36,382, \$30,686, and \$28,064, respectively, equal to the required contributions for each year.

Note 6. Other Postemployment Benefits (OPEB)

Plan Description – The Water Works operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 20 active members and no retired member's or spouses in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully insured plan with Coventry Health Care of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Water Works. The Water Works currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Water Works' annual OPEB cost is calculated based on the annual required contribution (ARC) of the Water Works. The Water Works has elected to calculate ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Water Works' annual OPEB cost for the years ended June 30, 2012 and 2011, the amounts actually contributed to the plan and changes in the Water Work's net OPEB obligation:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 14,773	14,815
Interest on OPEB obligation	1,328	894
Adjustments to annual required contributions	<u>(1,920)</u>	<u>(1,293)</u>
Annual OPEB cost	14,181	14,416
Contributions made	-	3,570
Increase in net OPEB obligation	<u>14,181</u>	<u>10,846</u>
Net OPEB obligation beginning of year	<u>33,205</u>	<u>22,359</u>
Net OPEB obligation end of year	<u>\$ 47,386</u>	<u>33,205</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 6. Other Postemployment Benefits (OPEB) (Continued)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the Water Works contributed \$104,443 to the medical plan. Plan members eligible for benefits contributed \$31,490 or 23% of the premium costs.

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 14,815	22.9%	\$ 11,425
2010	14,611	25.2%	22,359
2011	14,416	24.8%	33,205
2012	14,181	0.0%	47,386

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$90,876, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$90,876. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$867,121 and the ratio of the UAAL to covered payroll was 10.5%. As of June 30, 2012 and 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 6. Other Postemployment Benefits (OPEB) (continued)

Mortality rates are from the 2004 United States Life Tables, applied on a gender-specific basis. Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for benefits.

Projected claim costs of the medical plan are \$320 per month for single retirees and \$714 per month for retirees and spouse. These costs were determined from the estimated age-adjusted premium rates of the plan and the method provided by the alternative measurement method under GASB 45. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 7. Risk Management

The Water Works 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 Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for 2012 and 2011. There have been no reductions in insurance coverage from prior years.

Note 8. Concentrations of Credit Risk

Concentrations of credit risk with respect to accounts receivable is limited due to the large number of customers comprising the Water Works' customer base and the Water Works' policy of receiving a deposit amount or a credit reference from another utility before beginning service. However, some risk exists due to the small geographic location of all the receivables.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2012 and 2011

Note 9. Capital Assets

Capital assets are stated at cost as follows at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,112,721	1,112,721
Plant and source of supply	9,660,889	9,474,608
Booster station	161,072	161,072
Distribution system and pipe	10,505,835	10,472,930
Meters	1,238,596	1,231,478
Machinery and equipment	381,820	364,251
Vehicles	199,451	199,830
Capital improvements	82,655	78,646
Capital improvements - buildings	560,294	560,294
Office equipment and furnishings	376,331	376,331
	<u>24,279,664</u>	<u>24,032,161</u>
Less accumulated depreciation	<u>(12,540,542)</u>	<u>(11,963,587)</u>
	<u>\$ 11,739,122</u>	<u>12,068,574</u>

Depreciation expense was \$620,942 for the year ended June 30, 2012 and \$601,503 for the year ended June 30, 2011.

Note 10. Date of Management Evaluation

Management has evaluated subsequent events through September 17, 2012, the date on which the financial statements were available to be issued.

Required Supplementary Information

MARSHALLTOWN WATER WORKS

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Balances - Budget to Actual Required Supplementary Information For the Year Ended June 30, 2012

	<u>Actual</u>	<u>Budgeted Amounts Original/Final</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for services	\$ 3,211,232	3,370,187	(158,955)
Miscellaneous	19,640	20,750	(1,110)
Total revenues	<u>3,230,872</u>	<u>3,390,937</u>	<u>(160,065)</u>
Expenses:			
Business type activities	<u>3,063,456</u>	<u>3,390,587</u>	<u>327,131</u>
Increase in net assets	167,416	350	167,066
Net assets beginning of year	<u>12,796,884</u>	<u>1,808,726</u>	<u>10,988,158</u>
Net assets end of year	<u>\$ 12,964,300</u>	<u>1,809,076</u>	<u>11,155,224</u>

MARSHALLTOWN WATER WORKS

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

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

There were no budget amendments for the Water Works during fiscal year 2012.

During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted.

MARSHALLTOWN WATER WORKS

Schedule of Funding Progress for the Retiree Health Plan Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 95,737	\$ 95,737	0.0%	\$ 822,816	11.6%
2010	July 1, 2008	-	95,737	95,737	0.0%	754,252	12.7%
2011	July 1, 2008	-	95,737	95,737	0.0%	764,580	12.5%
2012	July 1, 2011	-	90,876	90,876	0.0%	867,121	10.5%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

MARSHALLTOWN WATER WORKS

Schedules of Net Assets Detail June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	736,641	541,645	194,996
Water deposits	57,540	51,400	6,140
	<u>794,811</u>	<u>593,675</u>	<u>201,136</u>
Cash held for city:			
Sewer deposit fund	77,510	69,170	8,340
Sewer cash	204,288	216,308	(12,020)
Storm sewer cash	22,589	24,540	(1,951)
Landfill cash	10,501	12,227	(1,726)
Total cash held for city	<u>314,888</u>	<u>322,245</u>	<u>(7,357)</u>
Total cash	<u>\$ 1,109,699</u>	<u>915,920</u>	<u>193,779</u>
Capital assets:			
Land	\$ 1,112,721	1,112,721	-
Plant and source of supply	9,660,890	9,474,608	186,282
Accumulated depreciation - plant	(7,304,406)	(6,923,837)	(380,569)
Distribution system and pipe	10,505,835	10,472,930	32,905
Accumulated depreciation - distribution	(3,112,454)	(2,982,313)	(130,141)
Booster station	161,072	161,072	-
Accumulated depreciation-booster station	(69,078)	(67,282)	(1,796)
Meters	1,238,596	1,231,478	7,118
Accumulated depreciation - meters	(937,477)	(904,487)	(32,990)
Machinery and equipment	381,820	364,251	17,569
Accumulated depreciation - machinery and equipment	(294,990)	(263,181)	(31,809)
Vehicles	199,451	199,830	(379)
Accumulated depreciation - vehicles	(120,746)	(151,479)	30,733
Capital improvements	82,655	78,646	4,009
Accumulated depreciation - capital improvements	(29,743)	(25,728)	(4,015)
Capital improvements - buildings	560,294	560,294	-
Accumulated depreciation - buildings	(313,398)	(296,833)	(16,565)
Office equipment and furnishings	376,331	376,331	-
Accumulated depreciation - office equipment and furnishings	(358,251)	(348,447)	(9,804)
Net capital assets	<u>\$ 11,739,122</u>	<u>12,068,574</u>	<u>(329,452)</u>

MARSHALLTOWN WATER WORKS

Schedules of Net Assets Detail (Continued) June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 14,798	14,474	324
Prepaid computer maintenance	16,405	15,624	781
Prepaid billing supplies	<u>5,436</u>	<u>4,884</u>	<u>552</u>
Total prepaid expenses	<u>\$ 36,639</u>	<u>34,982</u>	<u>1,657</u>
Other receivables:			
Miscellaneous accounts receivable billings	\$ 29,713	36,905	(7,192)
Interest receivable	1,694	816	878
Contract receivables	<u>4,717</u>	<u>509</u>	<u>4,208</u>
Total other receivables	<u>\$ 36,124</u>	<u>38,230</u>	<u>(2,106)</u>
Accrued liabilities:			
Accrued sales tax	\$ 13,212	7,350	5,862
Accrued F.I.C.A.	2,327	2,327	-
Accrued payroll	30,420	30,420	-
Accrued pension	1,146	1,146	-
Accrued vacation	78,303	81,567	(3,264)
Accrued retirement expense	1,179	1,180	(1)
Insurance deductible	<u>(11,051)</u>	<u>(8,826)</u>	<u>(2,225)</u>
Total accrued liabilities	<u>\$ 115,536</u>	<u>115,164</u>	<u>372</u>

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ 341,510	328,484	13,026
Employee benefits:			
Health insurance	43,365	29,805	13,560
Pension	45,785	40,709	5,076
Social security	24,989	24,281	708
Life insurance	793	757	36
Mileage	517	465	52
Registration	2,736	2,642	94
Lodging	551	277	274
Safety clothing	620	1,347	(727)
Safety training	50	70	(20)
Dues	167	167	-
Food	628	528	100
Travel	1,743	-	1,743
	<u>121,944</u>	<u>101,048</u>	<u>20,896</u>
Utilities:			
Electric	210,071	220,252	(10,181)
Gas	12,294	16,448	(4,154)
Internet	219	219	-
Telephone	1,314	1,212	102
	<u>223,898</u>	<u>238,131</u>	<u>(14,233)</u>
Depreciation:			
Plant depreciation	380,570	378,219	2,351
Fuels:			
Gas	2,617	1,649	968
Oil	713	79	634
Diesel fuel	2,336	1,375	961
	<u>5,666</u>	<u>3,103</u>	<u>2,563</u>
Supplies:			
Lab supplies	17,635	19,051	(1,416)
Plant supplies	2,473	-	2,473
Building supplies	47	88	(41)

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Supplies (continued):			
Well supplies	46	-	46
Cleaning supplies	16	397	(381)
General supplies	1,307	679	628
Health and first aid	-	49	(49)
Operational fees and permits	800	-	800
CIWA meter pit supplies	37	22	15
Safety equipment	1	976	(975)
	<u>22,362</u>	<u>21,262</u>	<u>1,100</u>
Maintenance:			
Building maintenance	3,984	1,284	2,700
Machinery maintenance	11,147	10,792	355
Computer maintenance	3,260	1,247	2,013
Grounds maintenance	1,342	3,293	(1,951)
Well field maintenance	7,986	5,393	2,593
Safety equipment maintenance	139	-	139
Vehicle maintenance	1,349	125	1,224
	<u>29,207</u>	<u>22,134</u>	<u>7,073</u>
Chemicals:			
Pebble-lime	262,380	233,268	29,112
CO2	16,635	13,429	3,206
CL2	32,853	25,662	7,191
Fluoride	23,113	35,241	(12,128)
Poly-phosphate	9,092	9,102	(10)
Lime sludge removal	254,200	99,400	154,800
Sodium chlorite	10,676	18,198	(7,522)
	<u>608,949</u>	<u>434,300</u>	<u>174,649</u>
Contract services:			
Lab services	1,978	5,098	(3,120)
	<u>1,978</u>	<u>5,098</u>	<u>(3,120)</u>
 Total treatment plant	 <u>\$ 1,736,084</u>	 <u>1,531,779</u>	 <u>204,305</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ 198,356	241,027	(42,671)
Employee benefits:			
Health insurance	23,445	23,105	340
Pension	37,333	43,189	(5,856)
Social security	14,866	18,245	(3,379)
Life insurance	476	581	(105)
Registration	170	555	(385)
Food	20	90	(70)
Lodging	72	179	(107)
Medical	-	528	(528)
Safety clothing	1,678	1,438	240
Safety training	50	(30)	80
	<u>78,110</u>	<u>87,880</u>	<u>(9,770)</u>
Depreciation:			
Distribution depreciation	130,141	125,842	4,299
Booster station depreciation	1,797	1,797	-
Equipment depreciation	32,366	22,934	9,432
	<u>164,304</u>	<u>150,573</u>	<u>13,731</u>
Fuels:			
Gas	4,391	3,302	1,089
Oil	472	1,697	(1,225)
Grease	79	100	(21)
Diesel fuel	6,464	4,809	1,655
	<u>11,406</u>	<u>9,908</u>	<u>1,498</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	6,163	9,778	(3,615)
Shop supplies	1,906	1,903	3
Leak repair supplies	14,849	35,660	(20,811)
Hydrant and valve supplies	5,785	965	4,820
Booster station supplies	461	1,091	(630)
Safety equipment	68	-	68
Data processing supplies	75	-	75
	<u>29,307</u>	<u>49,397</u>	<u>(20,090)</u>
Maintenance:			
Vehicle maintenance	5,198	7,214	(2,016)
Equipment maintenance	3,623	4,833	(1,210)
Computer maintenance	820	754	66
Safety equipment maintenance	10	-	10
Tower maintenance	345	-	345
Well field maintenance	233	45	188
Booster station maintenance	874	479	395
	<u>11,103</u>	<u>13,325</u>	<u>(2,222)</u>
 Total construction and maintenance	<u>\$ 492,586</u>	<u>552,110</u>	<u>(59,524)</u>

MARSHALLTOWN WATER WORKS

Schedules of Customer Service and Meter Expenses For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ <u>122,508</u>	<u>122,413</u>	<u>95</u>
Employee benefits:			
Health insurance	22,800	24,615	(1,815)
Pension	17,938	16,344	1,594
Social security	8,779	8,661	118
Life insurance	296	296	-
Safety clothing	768	155	613
Safety training	50	35	15
	<u>50,631</u>	<u>50,106</u>	<u>525</u>
Depreciation:			
Vehicle depreciation	12,696	11,469	1,227
Meter depreciation	32,989	31,636	1,353
	<u>45,685</u>	<u>43,105</u>	<u>2,580</u>
Fuels:			
Gas	6,290	4,720	1,570
Oil	9	-	9
Grease	34	-	34
	<u>6,333</u>	<u>4,720</u>	<u>1,613</u>
Maintenance:			
Vehicle maintenance	737	965	(228)
Equipment maintenance	271	219	52
Computer maintenance	47	-	47
	<u>1,055</u>	<u>1,184</u>	<u>(129)</u>
Supplies:			
General supplies	883	1,818	(935)
Meter repair supplies	2,486	4,141	(1,655)
Shop supplies	520	157	363
Service repair supplies	71	174	(103)
	<u>3,960</u>	<u>6,290</u>	<u>(2,330)</u>
 Total customer service and meter	 <u>\$ 230,172</u>	 <u>227,818</u>	 <u>2,354</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ <u>267,211</u>	<u>257,965</u>	<u>9,246</u>
Employee benefits:			
Health insurance	14,955	13,395	1,560
Pension	47,913	45,326	2,587
Social security	19,752	18,388	1,364
Life insurance	708	888	(180)
Mileage	3,641	2,650	991
Registration fees	705	70	635
Dues and subscriptions	5,431	5,091	340
Lodging	884	177	707
Food	169	150	19
	<u>94,158</u>	<u>86,135</u>	<u>8,023</u>
Utilities:			
Electricity	7,008	9,112	(2,104)
Gas	3,267	3,609	(342)
Internet expense	219	334	(115)
Telephone	6,009	5,810	199
	<u>16,503</u>	<u>18,865</u>	<u>(2,362)</u>
Depreciation:			
Building depreciation	16,565	16,353	212
Capital improvement depreciation	4,014	3,281	733
Equipment depreciation	9,804	9,972	(168)
	<u>30,383</u>	<u>29,606</u>	<u>777</u>
General supplies:			
Office supplies	4,220	3,842	378
Data processing supplies	1,331	2,394	(1,063)
General supplies	3,830	3,226	604
Building supplies	16	-	16
Operational fees and permits	4,155	(2,526)	6,681
Health and first aid	918	1,051	(133)
	<u>14,470</u>	<u>7,987</u>	<u>6,483</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	24,364	23,503	861
Office machine maintenance	2,562	1,078	1,484
Grounds maintenance	-	45	(45)
Building maintenance	2,631	935	1,696
	<u>29,557</u>	<u>25,561</u>	<u>3,996</u>
Administrative expenses:			
Insurance	58,815	53,961	4,854
Banking services	3,449	2,684	765
Legal services	6,092	17,030	(10,938)
Cleaning services	6,038	5,040	998
Accounting services	7,650	8,400	(750)
Postage	19,530	17,573	1,957
Public notices	4,679	5,373	(694)
Contract services	1,544	916	628
Engineering services	-	(5,999)	5,999
Computer programming	-	372	(372)
	<u>107,797</u>	<u>105,350</u>	<u>2,447</u>
Total administrative expenses	<u>\$ 560,079</u>	<u>531,469</u>	<u>28,610</u>
Non-operating expenses:			
Interest expense	\$ 21,089	27,463	(6,374)
Board compensation	900	675	225
Miscellaneous	14,546	14,007	539
Economic development	8,000	8,000	-
	<u>44,535</u>	<u>50,145</u>	<u>(5,610)</u>
Total non-operating expenses	<u>\$ 44,535</u>	<u>50,145</u>	<u>(5,610)</u>

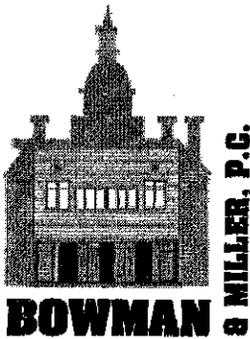
MARSHALLTOWN WATER WORKS

Schedules of Indebtedness For the Year Ended June 30, 2012

	<u>Revenue Note</u>
Date of issue	April 15, 2009
Interest rate	3.25%
Original amount	\$ <u>1,025,000</u>
Balance, beginning of year	\$ 645,000
Issued during year	-
Redeemed during year	<u>205,000</u>
Balance, end of year	\$ <u>440,000</u>
Current portion (due in one year)	\$ <u>215,000</u>

For the Year Ended June 30, 2011

	<u>Revenue Bonds</u>
Date of issue	April 15, 2009
Interest rates	3.25%
Original amount	\$ <u>1,025,000</u>
Balance, beginning of year	\$ 845,000
Issued during year	-
Redeemed during year	<u>200,000</u>
Balance, end of year	\$ <u>645,000</u>
Current portion (due in one year)	\$ <u>205,000</u>



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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

To the Board of Trustees of the
Marshalltown Water Works
Marshalltown, Iowa

We have audited the accompanying financial statements of Marshalltown Water Works, as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated September 17, 2012. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Marshalltown Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Marshalltown Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Water Works' 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 that all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 audits 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.

Comments involving statutory and other legal matters about the Water Works' operations for the years ended June 30, 2012 and 2011 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Water Works. Since our audits were 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Marshalltown Water Works and other parties to whom the Marshalltown Water Works may report. This report 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 the Marshalltown Water Works during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 17, 2012

MARSHALLTOWN WATER WORKS

Schedule of Findings Years Ended June 30, 2012 and 2011

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Other Findings Related to Required Statutory Reporting:

- 12-II-A Certified Budget - Expenditures during the years ended June 30, 2012 and 2011, did not exceed the amounts budgeted.
- 12-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 12-II-C Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.
- 12-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 12-II-E Bond Coverage - Surety bond coverage of Water Works 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.
- 12-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 12-II-G 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 Water Works' investment policy were noted.
- 12-II-H Revenue Note - The Water Works has established the sinking and reserve accounts required by the water revenue note resolution.

MARSHALLTOWN WATER WORKS

Audit Staff

This report was prepared by:

BOWMAN AND MILLER, P.C.
Certified Public Accountants
Marshalltown, Iowa

Personnel:

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