

**GOWRIE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF GOWRIE**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

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A Component Unit of the City of Gowrie

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Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Sturm	Trustee	July, 2015
Jeff Boerner	Trustee	July, 2017
Brad Lane	Trustee	July, 2012
Debra Tvrdik	Trustee	July, 2013
Bruce Towne	Trustee	July, 2014
Charles Angstrom	Public Works Director	Indefinite
Patrice Klingson	Secretary	Indefinite
Johnson Law Firm	Attorney	Indefinite

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

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Independent Auditor's Report

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

We have audited the accompanying financial statement of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2012. This financial statement is the responsibility of the Gowrie Municipal Utilities' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Gowrie Municipal Utilities is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Gowrie, Iowa that is attributable to the transactions of the Utilities.

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of June 30, 2012, and the changes in its 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 February 15, 2013 on our consideration of Gowrie 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 control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. The supplementary information included in Schedules 1 through 11, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statement of Gowrie Municipal Utilities, a component unit of the City of Gowrie. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 15 through 16 are presented for purposes of additional analysis and are not a required part of the financial statement. This information has not been subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Cornwell, Frideres, Maher & Associates, P.L.C.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

February 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gowrie Municipal Utilities provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statement, which follows.

2012 FINANCIAL HIGHLIGHTS

- Operating receipts of the Utilities increased 1.4%, or approximately \$18,000 from fiscal 2011 to fiscal 2012.
- Operating disbursements decreased 1.0%, or approximately \$11,000 in fiscal 2012 compared to fiscal 2011.
- The Utilities' total cash basis net assets decreased 15.5%, or approximately \$197,000, from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

The Gowrie Municipal Utilities has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Gowrie Municipal Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Gowrie Municipal Utilities' cash basis of accounting.

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Gowrie Municipal Utilities' receipts and disbursements and whether the Utilities' financial position has improved or deteriorated as a result of the year's activities.

Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Utilities' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Funds. In addition, the Schedule of Indebtedness provides detail of the Utilities' debt at June 30, 2012.

FINANCIAL ANALYSIS OF THE GOWRIE MUNICIPAL UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Gowrie Municipal Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balances at year end. Over time, readers of the financial statement are able to determine the Gowrie Municipal Utilities' financial position by analyzing the increase and decrease in cash basis net assets.

The Utilities' maintain five Enterprise Funds to provide separate information for the water, sewer, electric, garbage and meter deposit departments. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2012 and June 30, 2011 are presented below:

Changes in Cash Basis Net Assets (Expressed in Thousands)		
	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 1,294	1,275
General receipts:		
Unrestricted interest on investments	10	13
Bond proceeds	550	---
Other general receipts	<u>74</u>	<u>77</u>
Total receipts	<u>1,928</u>	<u>1,365</u>

Disbursements	<u>2,124</u>	<u>1,259</u>
Net change in cash basis net assets	(196)	106
Cash basis net assets beginning of year	<u>1,268</u>	<u>1,162</u>
Cash basis net assets end of year	\$ 1,072 =====	1,268 =====

Total receipts for the fiscal year were \$1.928 million compared to \$1.365 million last year. This increase was due primarily to bond proceeds in 2012. The cash balance decreased by approximately \$196,000 from the prior year. Total disbursements for the fiscal year increased by 68.7% to a total of \$2,124 million. This increase was due to a purchase of a new generator for the electric department.

BUDGETARY HIGHLIGHTS

The Gowrie Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City of Gowrie, Iowa. The Utilities had one budget amendment for a bond proceeds issuance and the cost of a generator during the year ended June 30, 2012.

The Utilities' receipts were \$76,646 less than budgeted. This was primarily due to the Utilities' receiving less charges for service receipts than anticipated.

Total disbursements were \$236,022 less than budgeted. This was primarily due to electric fund salaries, power purchases and generator being less than anticipated.

DEBT ADMINISTRATION

At June 30, 2012, the Utilities had \$1,439,240 in notes and bonds compared to \$1,002,342 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2012	2011
Revenue note	\$ 576	85
Revenue bond	<u>863</u>	<u>917</u>
Total	\$ 1,439 =====	1,002 =====

Debt increased as a result of a new issuance of \$550,000 and decreased due to principal payments of \$113,102 on existing debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

Current economic conditions play a significant role in the day to day operations of the Utilities. These conditions include, but are not limited to maintaining machinery and equipment. In July 2010, the Utilities approved the purchase of a new generator. In July 2011, the Utilities approved the sale of \$550,000 electric revenue capital notes to pay for the purchase of the generator. In October 2011, the Utilities passed a resolution increasing electric rates to help with future retirement of the electric revenue capital notes.

In 2013-2014, Gowrie Municipal Utilities is planning to repaint the water tower. The Utilities pay for all the maintenance and day to day operations at the water plant. A preliminary bid of around \$80,000 is for painting the exterior only. Money has been set aside in the Tower Maintenance Fund (currently has \$86,280), but tower maintenance fees will need to be increased due to the rise in costs and the City of Gowrie indicating that they would like to keep the proceeds of the tower rent from Verizon. (Currently at \$5,184 per year.)

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gowrie Municipal Utilities, 1102 Main Street, Gowrie, Iowa 50543.

Financial Statement

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Exhibit A

Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2012

Operating receipts:	
Use of money and property	\$ 5,184
Charges for service	1,294,046
Miscellaneous	48,628
Total operating receipts	<u>1,347,858</u>
Operating disbursements:	
Business type activities	<u>1,123,861</u>
Total operating disbursements	<u>1,123,861</u>
Excess of operating receipts over operating disbursements	<u>223,997</u>
Non-operating receipts (disbursements):	
Interest on investments	9,543
Miscellaneous	20,365
Capital outlay	(839,125)
Debt service	<u>(161,291)</u>
Total non-operating receipts (disbursements)	<u>(970,508)</u>
Deficiency of receipts under disbursements	(746,511)
Proceeds from revenue note	<u>550,000</u>
Net change in cash basis net assets	(196,511)
Cash basis net assets beginning of year	<u>1,268,416</u>
Cash basis net assets end of year	<u><u>1,071,905</u></u>
Cash Basis Net Assets	
Restricted for:	
Debt service	88,767
Customer deposits	7,827
Improvements	142,391
Unrestricted	<u>832,920</u>
Total cash basis net assets	<u><u>\$ 1,071,905</u></u>

See notes to financial statements.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2012

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Gowrie Municipal Utilities is a component unit of the City of Gowrie, Iowa as determined by criteria specified by the Governmental Accounting Standards Board. Gowrie Municipal Utilities is legally separate from the City, but is financially accountable to the City. The Utilities is governed by a five-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council. The Utilities provide water, electric, sewer and garbage services to the citizens of the City of Gowrie.

B. Basis of Presentation

The accounts of the 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 receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Measurement Focus and Basis of Accounting

The Gowrie Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does 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.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2012

D. Restricted Assets and Net Assets

Funds set aside for improvements, customer deposits and debt service are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements did not exceed the amount budgeted.

(2) **Cash**

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

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; 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 had no investments at June 30, 2012. During the year, the Utilities deposited excess funds in certificates of deposit.

Interest rate risk- The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utilities.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2012

(3) Notes and Bonds Payable

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

Year Ending <u>June 30,</u>	<u>Revenue Note</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 58,003	19,486	56,000	25,890	114,003	45,376
2014	60,011	17,410	57,000	24,210	117,011	41,620
2015	31,636	15,538	58,000	22,500	89,636	38,038
2016	32,736	14,437	60,000	20,760	92,736	35,197
2017	33,876	13,298	62,000	18,960	95,876	32,258
2018-2022	187,901	47,968	340,000	65,700	527,901	113,668
2023-2026	<u>172,077</u>	<u>13,437</u>	<u>230,000</u>	<u>15,210</u>	<u>402,077</u>	<u>28,647</u>
Total	\$ 576,240	141,574	863,000	193,230	1,439,240	334,804
	=====	=====	=====	=====	=====	=====

Revenue Notes

The Utilities have pledged future electric customer receipts, net of specified operating disbursements, to repay \$250,000 in electric revenue notes issued in March 2004. Proceeds from the notes provided financing for electric system improvements. The notes are payable solely from electric customer net receipts and are payable through 2014. Annual principal and interest payments on the notes are expected to require less than 33 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$60,562. For the current year, principal and interest paid and total customer net receipts were \$30,316 and \$93,820 respectively.

The Utilities have pledged future electric customer receipts, net of specified operating disbursements, to repay \$550,000 in electric revenue notes issued in August 2011. Proceeds from the notes provided financing for the purchase of an electric system generator. The notes are payable solely from electric customer net receipts and are payable through 2026. Annual principal and interest payments on the notes are expected to require less than 51 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$657,251. For the current year, principal and interest paid and total customer net receipts were \$47,174 and \$93,820 respectively.

Gowrie Municipal Utilities
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Notes to Financial Statement

June 30, 2012

The resolution providing for the issuance of the revenue notes includes 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) An “Electric Revenue Fund” is to be set aside and used in maintaining and operating the electric system and after payment of operating expenses be used to pay principal and interest on the note.

Revenue Bonds

The Utilities have pledged future water customer receipts, net of specified operating disbursements, to repay \$695,000 in water revenue bonds issued in July 2004. Proceeds from the bonds provided financing for improvements to the water treatment plant. The bonds are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 64 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$471,370. For the current year, principal and interest paid and total customer net receipts were \$39,540 and \$62,112, respectively.

The Utilities have pledged future sewer customer receipts, net of specified operating disbursements, to repay \$700,000 in sewer revenue bonds issued in May 2006. Proceeds from the bonds provided financing for the construction of improvements to the wastewater treatment system. The bonds are payable solely from sewer customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 70 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$584,860. For the current year, principal and interest paid and total customer net receipts were \$41,970 and \$60,347 respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2012

- (b) Sufficient monthly transfers shall be made to water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

(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.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the Utilities are required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$17,455, \$15,151, and \$16,511 respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utilities employees accumulate a limited amount of earned but unused vacation 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. Sick leave hours accumulate and are paid only when used. The Utilities' approximate liability for earned vacation payable to employees at June 30, 2012, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 11,396
	=====

This liability has been computed based on rates of pay in effect at June 30, 2012.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2012

(6) Deferred Compensation Agreement

Gowrie Municipal Utilities previously entered into a non qualified deferred compensation agreement with a former employee. The Utilities has a fiduciary responsibility over the assets in the fund and the funds remain the property of the Utilities until actually distributed to the employee or his beneficiary in accordance with the provisions of the agreement.

(7) Risk Management

Gowrie Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks 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 these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Operating Lease

The Utilities entered into an operating lease with Star Leasing LLC for the rental of a copier on January 26, 2011 for a period of 63 months. The amount paid for the fiscal year ended June 30, 2012 was \$948. Future rentals are scheduled as follows:

Year Ending <u>June 30,</u>	
2013	\$ 948
2014	948
2015	948
2016	<u>869</u>
Total	\$ <u>3,713</u>

(9) Subsequent Events

Subsequent events have been evaluated through February 15, 2013, which is the date the financial statements were available to be issued.

On November 13, 2012 the Board approved the purchase of a new 2013 Chevy Silverado pickup for \$23,760.

Other Information

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2012

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts:				
Use of money and property	\$ 14,727	18,234	18,234	(3,507)
Charges for service	1,294,046	1,275,730	1,385,730	(91,684)
Miscellaneous	<u>68,993</u>	<u>50,448</u>	<u>50,448</u>	<u>18,545</u>
Total receipts	<u>1,377,766</u>	<u>1,344,412</u>	<u>1,454,412</u>	<u>(76,646)</u>
Disbursements:				
Business type activities	<u>2,124,277</u>	<u>1,360,299</u>	<u>2,360,299</u>	<u>236,022</u>
Deficiency of receipts under disbursements	(746,511)	(15,887)	(905,887)	159,376
Other financing sources, net	<u>550,000</u>	<u>-</u>	<u>550,000</u>	<u>-</u>
Net change in cash basis net assets	(196,511)	(15,887)	(355,887)	159,376
Cash basis net assets beginning of year	<u>1,268,416</u>	<u>(686,806)</u>	<u>(686,806)</u>	<u>1,955,222</u>
Cash basis net assets end of year	<u>\$ 1,071,905</u>	<u>(702,693)</u>	<u>(1,042,693)</u>	<u>2,114,598</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
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Notes to Other Information – Budgetary Reporting

June 30, 2012

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

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. Gowrie Municipal Utilities' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted revenues by \$660,000 and budgeted disbursements by \$1,000,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amount budgeted.

Supplementary Information

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 1

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Electric Department

As of and for the year ended June 30, 2012

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sale of electricity	\$ 907,099	-	907,099
Reconnection fees	<u>1,052</u>	<u>-</u>	<u>1,052</u>
	<u>908,151</u>	<u>-</u>	<u>908,151</u>
Miscellaneous:			
Merchandise and labor sales	6,145	-	6,145
Sales tax collected	<u>35,666</u>	<u>-</u>	<u>35,666</u>
	<u>41,811</u>	<u>-</u>	<u>41,811</u>
Total operating receipts	<u>949,962</u>	<u>-</u>	<u>949,962</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	144,414	-	144,414
FICA - Employer's portion	11,048	-	11,048
IPERS - Employer's portion	11,654	-	11,654
Group insurance	24,812	-	24,812
Uniforms	600	-	600
Employee medical reimbursement	12,698	-	12,698
Workers compensation	<u>7,980</u>	<u>-</u>	<u>7,980</u>
	<u>213,206</u>	<u>-</u>	<u>213,206</u>
Services and commodities:			
Advertising and legal publication	1,919	-	1,919
Consulting and legal	2,985	-	2,985
Power purchased	476,962	-	476,962
General insurance	16,951	-	16,951
Miscellaneous contractual work	4,859	-	4,859
Postage and shipping	2,021	-	2,021
Sales and property tax remitted	48,379	-	48,379
Telephone	1,768	-	1,768
Travel and conference	30	-	30
Utility service	10,325	-	10,325
Dues and memberships	4,963	-	4,963
Buildings and maintenance supplies	2,161	-	2,161
Small equipment	8,140	-	8,140
Motor vehicle supplies and maintenance	9,367	-	9,367
Office supplies	4,635	-	4,635
Operating supplies and materials	2,676	-	2,676

(continued)

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 1

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Electric Department

As of and for the year ended June 30, 2012

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Refunds	690	-	690
Contribution to City	22,286	-	22,286
Distribution supplies and material	21,819	-	21,819
	<u>642,936</u>	<u>-</u>	<u>642,936</u>
Total operating disbursements	<u>856,142</u>	<u>-</u>	<u>856,142</u>
Excess of operating receipts over operating disbursements	<u>93,820</u>	<u>-</u>	<u>93,820</u>
Non-operating receipts (disbursements):			
Interest on investments	6,094	34	6,128
Miscellaneous	15,633	-	15,633
Proceeds from revenue note	550,000	-	550,000
Capital outlay:			
Generator project	(839,125)	-	(839,125)
Debt service:			
Principal redeemed	-	(59,103)	(59,103)
Interest paid	-	(18,386)	(18,386)
Total non-operating receipts (disbursements)	<u>(267,398)</u>	<u>(77,455)</u>	<u>(344,853)</u>
Deficiency of receipts under disbursements	(173,578)	(77,455)	(251,033)
Operating transfer in	6,345	81,505	87,850
Operating transfer out	<u>(81,505)</u>	<u>-</u>	<u>(81,505)</u>
Net change in cash basis net assets	(248,738)	4,050	(244,688)
Cash basis net assets beginning of year	<u>826,814</u>	<u>2,661</u>	<u>829,475</u>
Cash basis net assets end of year	<u>\$ 578,076</u>	<u>6,711</u>	<u>584,787</u>
Cash Basis Net Assets			
Restricted for debt service	\$ -	6,711	6,711
Unrestricted	<u>578,076</u>	<u>-</u>	<u>578,076</u>
Total cash basis net assets	<u>\$ 578,076</u>	<u>6,711</u>	<u>584,787</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Water Department

As of and for the year ended June 30, 2012

	Water Operations & <u>Maintenance</u>	Water Sinking <u>2004 Project</u>	Water <u>Reserve</u>
Operating receipts:			
Use of money and property:			
Tower rent	\$ -	-	-
Charges for service:			
Sale of water	156,202	-	-
Reconnection fees	300	-	-
	<u>156,502</u>	-	-
Miscellaneous:			
Merchandise and labor sales	1,712	-	-
Total operating receipts	<u>158,214</u>	-	-
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	38,167	-	-
FICA - Employer's portion	2,920	-	-
IPERS - Employer's portion	3,080	-	-
Group insurance	8,393	-	-
Uniforms	200	-	-
Workers compensation	1,324	-	-
	<u>54,084</u>	-	-
Services and commodities:			
Advertising and legal publication	850	-	-
Consulting and legal	605	-	-
General insurance	3,406	-	-
Miscellaneous contractual work	7,660	-	-
Postage and shipping	646	-	-
Telephone	1,447	-	-
Travel and conference	381	-	-
Utility service	12,544	-	-
Dues and memberships	509	-	-
Building and maintenance supplies	363	-	-
Small equipment	1,986	-	-
Chemicals and testing	2,977	-	-
Motor vehicle supplies and maintenance	923	-	-
Office supplies	1,392	-	-
Operating supplies and materials	817	-	-
Distribution supplies and material	4,481	-	-
Contribution to City	1,031	-	-
	<u>42,018</u>	-	-
Total operating disbursements	<u>96,102</u>	-	-

Schedule 2

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
5,184	-	5,184
2,480	-	158,682
-	-	300
2,480	-	158,982
-	-	1,712
7,664	-	165,878
-	-	38,167
-	-	2,920
-	-	3,080
-	-	8,393
-	-	200
-	-	1,324
-	-	54,084
-	-	850
-	-	605
-	-	3,406
-	-	7,660
-	-	646
-	-	1,447
-	-	381
-	-	12,544
-	-	509
-	-	363
-	-	1,986
-	-	2,977
-	-	923
-	-	1,392
-	-	817
-	-	4,481
-	-	1,031
-	-	42,018
-	-	96,102

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Water Department

As of and for the year ended June 30, 2012

	Water Operations & <u>Maintenance</u>	Water Sinking <u>2004 Project</u>	Water <u>Reserve</u>
Excess of operating receipts over operating disbursements	62,112	-	-
Non-operating receipts (disbursements):			
Interest on investments	1,304	-	14
Miscellaneous	3,296	-	-
Debt service:			
Principal redeemed	-	(27,000)	-
Interest paid	-	(13,585)	-
Total non-operating receipts (disbursements)	<u>4,600</u>	<u>(40,585)</u>	<u>14</u>
Excess (deficiency) of receipts over (under) disbursements	66,712	(40,585)	14
Operating transfer in	1,952	40,630	-
Operating transfer out	<u>(40,630)</u>	<u>-</u>	<u>-</u>
Net change in cash basis net assets	28,034	45	14
Cash basis net assets beginning of year	<u>55,150</u>	<u>874</u>	<u>115,458</u>
Cash basis net assets end of year	<u>\$ 83,184</u>	<u>919</u>	<u>115,472</u>
Cash Basis Net Assets			
Restricted for:			
Debt service	\$ -	919	77,500
Improvements	-	-	37,972
Unrestricted	<u>83,184</u>	<u>-</u>	<u>-</u>
Total cash basis net assets	<u>\$ 83,184</u>	<u>919</u>	<u>115,472</u>

See accompanying independent auditor's report.

Schedule 2

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
<u>7,664</u>	<u>-</u>	<u>69,776</u>
688	-	2,006
-	-	3,296
-	-	(27,000)
<u>-</u>	<u>-</u>	<u>(13,585)</u>
<u>688</u>	<u>-</u>	<u>(35,283)</u>
8,352	-	34,493
-	-	42,582
<u>-</u>	<u>-</u>	<u>(40,630)</u>
8,352	-	36,445
<u>76,067</u>	<u>20,000</u>	<u>267,549</u>
<u>84,419</u>	<u>20,000</u>	<u>303,994</u>
-	-	78,419
84,419	20,000	142,391
<u>-</u>	<u>-</u>	<u>83,184</u>
<u>84,419</u>	<u>20,000</u>	<u>303,994</u>

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 3

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Sewer Department

As of and for the year ended June 30, 2012

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sewer rental fees	\$ 137,961	-	137,961
Total operating receipts	<u>137,961</u>	<u>-</u>	<u>137,961</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	33,708	-	33,708
FICA - Employer's portion	2,579	-	2,579
IPERS - Employer's portion	2,720	-	2,720
Group insurance	8,393	-	8,393
Uniforms	200	-	200
Workers compensation	1,744	-	1,744
	<u>49,344</u>	<u>-</u>	<u>49,344</u>
Services and commodities:			
Advertising and legal publication	171	-	171
Consulting and legal	454	-	454
General insurance	2,480	-	2,480
Miscellaneous contractual work	9,025	-	9,025
Postage and shipping	462	-	462
Telephone	710	-	710
Utility service	12,274	-	12,274
Dues and memberships	219	-	219
Building and maintenance supplies	336	-	336
Small equipment	1,490	-	1,490
Motor vehicle supplies and maintenance	971	-	971
Office supplies	1,018	-	1,018
Operating supplies and materials	950	-	950
Distribution supplies and materials	311	-	311
	<u>30,871</u>	<u>-</u>	<u>30,871</u>
Total operating disbursements	<u>80,215</u>	<u>-</u>	<u>80,215</u>

(continued)

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 3

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Sewer Department

As of and for the year ended June 30, 2012

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Excess of operating receipts over operating disbursements	<u>57,746</u>	<u>-</u>	<u>57,746</u>
Non-operating receipts (disbursements):			
Interest on investments	1,165	-	1,165
Miscellaneous	1,436	-	1,436
Debt service:			
Principal redeemed	-	(27,000)	(27,000)
Interest paid	<u>-</u>	<u>(16,217)</u>	<u>(16,217)</u>
Total non-operating receipts (disbursements)	<u>2,601</u>	<u>(43,217)</u>	<u>(40,616)</u>
Excess (deficiency) of receipts over (under) disbursements	60,347	(43,217)	17,130
Operating transfer in	1,464	43,212	44,676
Operating transfer out	<u>(43,212)</u>	<u>-</u>	<u>(43,212)</u>
Net change in cash basis net assets	18,599	(5)	18,594
Cash basis net assets beginning of year	<u>129,897</u>	<u>3,642</u>	<u>133,539</u>
Cash basis net assets end of year	<u>\$ 148,496</u>	<u>3,637</u>	<u>152,133</u>
Cash Basis Net Assets			
Restricted for:			
Debt service	\$ -	3,637	3,637
Unrestricted	<u>148,496</u>	<u>-</u>	<u>148,496</u>
Total cash basis net assets	<u>\$ 148,496</u>	<u>3,637</u>	<u>152,133</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 4

Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Garbage Department

As of and for the year ended June 30, 2012

	Garbage
Operating receipts:	
Charges for service:	
Garbage service	\$ 88,952
Total operating receipts	88,952
Operating disbursements:	
Business type activities:	
Services and commodities:	
Miscellaneous contractual work	82,838
Other agency payments	3,252
Total operating disbursements	86,090
Excess of operating receipts over operating disbursements	2,862
Non-operating receipts:	
Interest on investments	190
Excess of receipts over disbursements	3,052
Operating transfer out	(9,761)
Net change in cash basis net assets	(6,709)
Cash basis net assets beginning of year	29,873
Cash basis net assets end of year	\$ 23,164
Cash Basis Net Assets	
Unrestricted	\$ 23,164
Total cash basis net assets	\$ 23,164

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 5

Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Meter Deposits

As of and for the year ended June 30, 2012

	<u>Meter Deposits</u>
Operating receipts:	
Miscellaneous	\$ 5,105
Total operating receipts	<u>5,105</u>
Operating disbursements:	
Business type activities	<u>5,312</u>
Total operating disbursements	<u>5,312</u>
Deficiency of operating receipts under operating disbursements	<u>(207)</u>
Non-operating receipts:	
Interest on investments	<u>54</u>
Net change in cash basis net assets	(153)
Cash basis net assets beginning of year	<u>7,980</u>
Cash basis net assets end of year	<u><u>\$ 7,827</u></u>
Cash Basis Net Assets	
Restricted for customer deposits	\$ 7,827
Total cash basis net assets	<u><u>\$ 7,827</u></u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule of Indebtedness

Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Electric Revenue Note - Security Savings Bank	Mar 9, 2004	3.65%	\$ 250,000
Water Revenue Bonds - State Revolving Fund	Jul 20, 2004	3.00%	\$ 695,000
Sewer Revenue Bonds - State Revolving Fund	Jun 1, 2006	3.00%	\$ 700,000
Electric Revenue Note - Security Savings Bank	Aug 1, 2011	3.45%	\$ 550,000

See accompanying independent auditor's report.

Schedule 6

<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>
<u>\$ 85,342</u>	<u>-</u>	<u>27,443</u>	<u>57,899</u>	<u>2,872</u>	<u>-</u>
<u>\$ 418,000</u>	<u>-</u>	<u>27,000</u>	<u>391,000</u>	<u>12,540</u>	<u>-</u>
<u>\$ 499,000</u>	<u>-</u>	<u>27,000</u>	<u>472,000</u>	<u>14,970</u>	<u>-</u>
<u>\$ -</u>	<u>550,000</u>	<u>31,659</u>	<u>518,341</u>	<u>15,515</u>	<u>-</u>

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 7

Note Maturities

June 30, 2012

Year Ending <u>June 30,</u>	<u>Electric Revenue Note</u> <u>Issued March 9, 2004</u>		<u>Electric Revenue Note</u> <u>Issued August 1, 2011</u>		<u>Total</u>
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2013	3.65 %	\$ 28,460	3.45 %	\$ 29,544	58,004
2014	3.65	29,439	3.45	30,572	60,011
2015		-	3.45	31,636	31,636
2016		-	3.45	32,736	32,736
2017		-	3.45	33,875	33,875
2018		-	3.45	35,054	35,054
2019		-	3.45	36,274	36,274
2020		-	3.45	37,536	37,536
2021		-	3.45	38,843	38,843
2022		-	3.45	40,194	40,194
2023		-	3.45	41,593	41,593
2024		-	3.45	43,040	43,040
2025		-	3.45	44,538	44,538
2026		-	3.45	42,906	42,906
Total		<u>\$ 57,899</u>		<u>\$ 518,341</u>	<u>576,240</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 8

Revenue Bond Maturities

June 30, 2012

Year Ending June 30,	<u>Water Revenue Bonds</u>		<u>Sewer Revenue Bonds</u>		<u>Total</u>
	Series 2004 Issued July 20, 2004		Series 2006 Issued June 1, 2006		
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2013	3.00 %	\$ 28,000	3.00 %	\$ 28,000	56,000
2014	3.00	28,000	3.00	29,000	57,000
2015	3.00	29,000	3.00	29,000	58,000
2016	3.00	30,000	3.00	30,000	60,000
2017	3.00	31,000	3.00	31,000	62,000
2018	3.00	32,000	3.00	32,000	64,000
2019	3.00	33,000	3.00	33,000	66,000
2020	3.00	34,000	3.00	34,000	68,000
2021	3.00	35,000	3.00	35,000	70,000
2022	3.00	36,000	3.00	36,000	72,000
2023	3.00	37,000	3.00	37,000	74,000
2024	3.00	38,000	3.00	38,000	76,000
2025		-	3.00	39,000	39,000
2026		-	3.00	41,000	41,000
	Total	<u>\$ 391,000</u>		<u>\$ 472,000</u>	<u>\$ 863,000</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 9

Schedule of Insurance Coverage

Year ended June 30, 2012

<u>Insurer</u>	<u>Coverage</u>	<u>Amount</u>
Employers Mutual Casualty Insurance Companies (Expires 4-1-2013)	<u>Comprehensive General Liability</u>	\$ 2,000,000/\$2,000,000
	Bodily injury	1,000,000/1,000,000
	Fire damage	100,000
	Medical expense	5,000
	<u>Blanket Building and Personal Property</u>	5,353,173
	<u>Automobile Coverage</u>	
	Bodily injury	1,000,000
	Collision (\$1,000 deductible)	ACV, or cost of repairs
	Comprehensive (\$100 deductible)	ACV, or cost of repairs
	Uninsured motorist	1,000,000
Underinsured motorist	1,000,000	
Medical payments	5,000	
	<u>Umbrella Liability</u>	2,000,000/2,000,000
	Retained limit	10,000
	<u>Comprehensive Employee Dishonesty Bond</u>	
	Public employees (\$2,000 deductible)	200,000
	Forgery or alteration (\$250 deductible)	10,000
	<u>Workers Compensation</u>	500,000
	<u>Board Members and Employees Liability</u>	
	Each loss (\$1,500 deductible)	1,000,000
	Aggregate	1,000,000
	<u>Premise Burglary</u>	
	Inside/outside premises	10,000/10,000
	Premise burglary	15,000
Cincinnati Insurance Company (Expires 4-1-2015)	<u>Boiler Insurance</u>	
	Engines and generators (10% of loss with \$25,000 minimum deductible)	5,000,000

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 10

Electric Department Data

Year ended June 30, 2012

1. Number of customers by rate category (by meters)

Commercial	141
Residential	479
Street lights	1

2. Electricity purchased – 7,920,262 K.W.H.

3. Electricity billed – 7,123,400 K.W.H.

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 11

Water Department Data

Year ended June 30, 2012

Number of customers served 484

Water rates:

\$3.75 per 1,000 gallons - \$11.00 minimum plus \$.50 per additional outlet or connection point in one building.

\$.10 per 1,000 gallons for water tower maintenance.

See accompanying independent auditor's report.

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

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Independent Auditor's Report
on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on An Audit of a Financial Statement Performed in
Accordance with Government Auditing Standards

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

We have audited the accompanying financial statement of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 15, 2013. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency,

or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Gowrie Municipal Utilities' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-12 and I-B-12 to be material weaknesses.

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

Compliance and Other Matters

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

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

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

This report, a public record by law, is intended solely for the information and use of the members and customers of Gowrie Municipal Utilities and other parties to whom Gowrie Municipal Utilities 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 Gowrie Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cornwell, Frideres, Maher & Associates, P.L.C.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

February 15, 2013

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie
Schedule of Findings
Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person. The Utilities has one employee handling most of the financial duties, including reconciling accounts and recording financial data.

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

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - Response accepted. The Utilities should utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-12 Preparation of Financial Statement – The Utilities do not have an internal control system designed to provide for preparation of the financial statement on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. Therefore, as auditors, we were requested to draft the financial statement and accompanying notes to the financial statement. This circumstance is not unusual for an entity similar in size to the Gowrie Municipal Utilities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Gowrie Municipal Utilities

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Schedule of Findings

Year ended June 30, 2012

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statement, including all necessary disclosures, can be considered costly and ineffective. However, it is the responsibility of the Utilities’ management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources to remain current on reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue to evaluate the risks to be accepted in preparation of the financial statement.

Conclusion – Response accepted.

I-C-12 Personnel Policy – The Utilities have a written personnel policy but certain parts are not clearly defined. The policy does not state who is to earn comp time.

Recommendation – In order to clear up any misunderstanding, the Utilities should review and revise its personnel policy to state who can and how much comp time can be earned.

Response – We will work on revising the policy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget - The City of Gowrie and Gowrie Municipal Utilities submit a combined budget. The Utilities disbursements during the year ended June 30, 2012, did not exceed the amount budgeted.
- II-B-12 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-C-12 Travel Expense - No disbursements of the Utilities’ money for travel expenses of spouses of the Utilities’ officials or employees were noted.
- II-D-12 Business Transactions – No business transactions between the Utilities and Utilities’ officials or employees were noted.
- II-E-12 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to ensure the coverage is adequate for current operations.
- II-F-12 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.
- II-H-12 Revenue Bond and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.