

MARSHALLTOWN WATER WORKS

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

June 30, 2013 and 2012

MARSHALLTOWN WATER WORKS

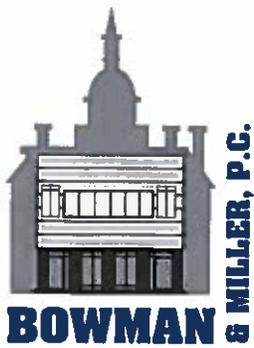
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MARSHALLTOWN WATER WORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshalltown Water Works, a component unit of the City of Marshalltown, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water Works' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4-6 and 22-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in pages 25 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, 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 respect, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2013 on our consideration of Marshalltown Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Marshalltown Waterworks' internal control over financial reporting and compliance.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 9, 2013

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, 2013.

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

2013 FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES

- ◆ Operating revenues of the Water Works increased 3.0%, or approximately \$96,000, from fiscal year 2012 to fiscal year 2013. A 6.5% rate increase and an increase in water usage by our wholesale customer were responsible for this increase.
- ◆ Operating expenses of the Water Works increased 3.5% or approximately \$104,000 in fiscal year 2013 from fiscal year 2012. Salaries and benefits increased due to a change in staffing levels. Supply costs increased primarily due to an increase in water main breaks. Chemical expenses increased due to rising chemical costs. The cost of property and casualty insurance increased as well.
- ◆ The Water Works net position increased 1.2% or approximately \$161,000 due primarily to expenses being lower than budgeted.

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.

The financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, 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.

Supplementary Information provides detailed information about the statements of net position, 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 Position 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 Position regardless of when cash is received or paid.

The Statements of Net Position report the Water Works' net position and how it has changed. Net position (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 position is 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 \$96,098 over fiscal year 2012 and operating expenses increased \$104,458 leaving an operating income of \$183,951. After all non-operating income and expenses were recorded; the Water Works reported a net increase of \$160,653 for the year ending June 30, 2013.
- ◆ The Water Works' operating revenues were \$3,307,330, which resulted in an increase from the previous year and was approximately 96% of the budgeted revenues. Expenses for fiscal year 2013 were slightly over 91% of the budgeted amount approved by the Board of Trustees in March 2012.

DEBT ADMINISTRATION

- ◆ During fiscal year 2013, the Marshelltown Water Works paid \$229,300 in principal and interest towards our water revenue capital loan note. The remaining principal balance is \$225,000. The debt service coverage ratio was 3.52, well above the required 1.25 ratio.

CONDITIONS OF THE WATER WORKS INFRASTRUCTURE

- ◆ The Marshelltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshelltown Water Works spent most of 2013 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 look at 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 2013 two of our three finished water reservoirs were cleaned and inspected.
- ◆ One well was raised and rehabilitated during fiscal year 2013. 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.
- ◆ The final well in our multi-year plan is planned to be raised and rehabilitated during fiscal year 2014.

- ◆ Other planned system upgrades for fiscal year 2014 include repairs to the exterior of the office building, water meter replacement, 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 operative 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. A rate increase was not implemented for fiscal year 2014; however it may be necessary for fiscal year 2015.

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 Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<u>ASSETS:</u>			
Current assets:			
Cash and cash equivalents	\$ 1,004,863	718,163	286,700
Receivables:			
Customer	277,230	293,906	(16,676)
Unbilled water usage	53,186	78,844	(25,658)
Other receivables	32,929	36,124	(3,195)
Prepaid expenses	30,550	36,639	(6,089)
Restricted cash and cash equivalents	398,843	391,536	7,307
Total current assets	<u>1,797,601</u>	<u>1,555,212</u>	<u>242,389</u>
Investments:			
Certificates of deposit	300,000	300,000	-
Capital reserve	400,550	403,176	(2,626)
Total investments	<u>700,550</u>	<u>703,176</u>	<u>(2,626)</u>
Capital assets:			
Capital assets	24,630,640	24,279,664	350,976
Accumulated depreciation	(13,140,773)	(12,540,542)	(600,231)
Net capital assets	<u>11,489,867</u>	<u>11,739,122</u>	<u>(249,255)</u>
Total assets	\$ <u><u>13,988,018</u></u>	<u><u>13,997,510</u></u>	<u><u>(9,492)</u></u>

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<u>LIABILITIES:</u>			
Current liabilities:			
Accounts payable	\$ 64,935	59,809	5,126
Payable from restricted assets:			
Landfill fees	10,037	10,501	(464)
Sewer fees	206,809	202,948	3,861
Storm sewer fees	20,779	21,980	(1,201)
Customer deposits - sewer	82,280	77,510	4,770
Customer deposits - water	60,785	57,540	3,245
Accrued liabilities	130,306	115,536	14,770
Current portion of long-term debt	225,000	215,000	10,000
Total current liabilities	<u>800,931</u>	<u>760,824</u>	<u>40,107</u>
Long-term liabilities:			
Capital loan note	225,000	440,000	(215,000)
Less: current portion	(225,000)	(215,000)	(10,000)
Net OPEB liability	62,134	47,386	14,748
Total long-term liabilities	<u>62,134</u>	<u>272,386</u>	<u>(210,252)</u>
Total liabilities	<u>863,065</u>	<u>1,033,210</u>	<u>(170,145)</u>
<u>NET POSITION:</u>			
Net investment in capital assets	11,264,867	11,299,122	(34,255)
Restricted for revenue note retirement	232,312	229,300	3,012
Unrestricted:			
Board restricted for capital improvements	400,550	403,176	(2,626)
Unrestricted	1,227,224	1,032,702	194,522
Total net position	<u>13,124,953</u>	<u>12,964,300</u>	<u>160,653</u>
Total liabilities and net position	<u>\$ 13,988,018</u>	<u>13,997,510</u>	<u>(9,492)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Residential	\$ 1,426,968	1,356,850	70,118
Multi-family	185,428	179,976	5,452
Commercial	432,400	446,971	(14,571)
Irrigation	54,397	87,577	(33,180)
Industrial	426,795	458,663	(31,868)
Wholesale	666,040	554,103	111,937
Non-metered	1,292	1,018	274
City contract services	59,918	62,187	(2,269)
Penalties	30,984	33,753	(2,769)
Customer service	19,277	25,907	(6,630)
Testing laboratory	3,831	4,227	(396)
Total operating revenues	<u>3,307,330</u>	<u>3,211,232</u>	<u>96,098</u>
Operating expenses:			
Salaries and wages	975,480	929,585	45,895
Payroll taxes and benefits	363,981	344,843	19,138
Utilities	249,852	240,401	9,451
Fuels	18,752	23,405	(4,653)
Supplies	88,973	70,099	18,874
Maintenance	62,596	70,922	(8,326)
Chemicals	622,201	608,949	13,252
Contract services	3,436	3,522	(86)
Insurance	66,425	58,815	7,610
Professional fees	17,465	13,742	3,723
Other operating expense	30,998	33,696	(2,698)
Depreciation	623,220	620,942	2,278
Total operating expenses	<u>3,123,379</u>	<u>3,018,921</u>	<u>104,458</u>
Operating income	<u>183,951</u>	<u>192,311</u>	<u>(8,360)</u>

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Position (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Non-operating revenues (expenses):			
Interest income	6,149	8,879	(2,730)
Rentals	1,050	300	750
Miscellaneous income	7,451	10,004	(2,553)
Gain/(loss) on disposal of equipment	-	457	(457)
Interest expense	(14,300)	(21,089)	6,789
Miscellaneous expense	<u>(23,648)</u>	<u>(23,446)</u>	<u>(202)</u>
Total non-operating revenues (expenses)	<u>(23,298)</u>	<u>(24,895)</u>	<u>1,597</u>
Changes in net position	160,653	167,416	(6,763)
Net position, beginning	<u>12,964,300</u>	<u>12,796,884</u>	<u>167,416</u>
Net position, ending	<u>\$ 13,124,953</u>	<u>12,964,300</u>	<u>160,653</u>

MARSHALLTOWN WATER WORKS

Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,352,859	3,104,468
Cash payments to suppliers for goods and services	(1,139,630)	(1,121,736)
Cash payments to employees and professional contractors for services	<u>(1,324,333)</u>	<u>(1,279,918)</u>
Net cash provided by operating activities	<u>888,896</u>	<u>702,814</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	703,647	600,000
Purchase of investments	(701,021)	(601,831)
Investment income	6,149	8,879
Receipt of rental income	1,050	300
Other non-operating expenses	<u>(16,197)</u>	<u>(12,985)</u>
Net cash used in investing activities	<u>(6,372)</u>	<u>(5,637)</u>
Cash flows from capital and related financing activities:		
Payment on revenue bond	(215,000)	(205,000)
Net OPEB liability	14,748	14,181
Interest paid on revenue bond/note	(14,300)	(21,089)
Acquisition of capital assets	<u>(373,965)</u>	<u>(291,490)</u>
Net cash used by financing activities	<u>(588,517)</u>	<u>(503,398)</u>
Net change in cash and cash equivalents	294,007	193,779
Cash and cash equivalents at beginning of year	<u>1,109,699</u>	<u>915,920</u>
Cash and cash equivalents at end of year	<u>\$ 1,403,706</u>	<u>1,109,699</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 183,951	192,311
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	623,220	620,942

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued) Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
(Increase) decrease in assets:		
Accounts receivable	16,676	(30,026)
Unbilled water usage	25,658	(78,844)
Other receivables	3,195	2,106
Prepaid expenses	6,089	(1,657)
Increase (decrease) in liabilities:		
Accounts payable	5,126	1,832
Payable to sewer fund	3,861	(13,618)
Payable to landfill fund	(464)	(1,726)
Payable to storm sewer fund	(1,201)	(3,358)
Customer deposits-sewer	4,770	8,340
Customer deposits-water	3,245	6,140
Accrued liabilities	<u>14,770</u>	<u>372</u>
Net cash provided by operating activities	<u>\$ 888,896</u>	<u>702,814</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements June 30, 2013 and 2012

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, 2013 and 2012. 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, 2013 and 2012

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, 2013 and 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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2013 and 2012

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, 2013 and 2012.

Interest rate risk – The Water Works' 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 Water Works.

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, 2013
Water revenue note, series 2009	Apr 15, 2009	3.25%	June 1, 2014	\$180,000-225,000	\$1,025,000	<u>\$225,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2014	\$ 225,000	7,312	232,312

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, 2013 and 2012

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 \$232,312.

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 2013 and 2012.

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 Position 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, 2013, 2012, and 2011 were \$478,884, \$479,708, and \$455,397, respectively, while total payrolls for 2013, 2012 and 2011 were \$947,288, \$932,439 and \$947,584, 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 2013, 2012 and 2011. 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, 2013 and 2012

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, 3% 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, 2013, 2012 and 2011 were as follows:

	<u>2013*</u>	<u>2012*</u>	<u>2011*</u>
Vested:			
Active	\$ 258,711	236,878	208,250
Retired	<u>1,681,442</u>	<u>1,707,155</u>	<u>1,794,280</u>
Total vested	1,940,153	1,944,033	2,002,530
Employer financed	<u>631,818</u>	<u>585,674</u>	<u>516,654</u>
Total pension benefit obligations	\$ <u>2,571,971</u>	<u>2,529,707</u>	<u>2,519,184</u>
Net assets available for benefits at market value	\$ 1,200,008	1,183,518	1,229,982
(cost 2013: \$1,049,406)			
(cost 2012: \$1,080,957)			
(cost 2011: \$1,140,437)			
Prepaid (unfunded) pension	\$ (1,371,963)	(1,346,189)	(1,289,202)

*An actuarial valuation was performed on April 1, 2013 and April 1, 2011. Estimated values have been calculated as of April 1, 2012.

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 year ended June 30, 2013 was 8.67% plus an additional \$3,000 per bi-weekly payroll and for the years ended June 30, 2012 and 2011 was 7.25% plus an additional \$3,000 per bi-weekly payroll. The employee contribution rate for the year ended June 30, 2013 was 4.78% and for the years ended June 30, 2012 and 2011 was 4%. Contributions paid by the Water Works for the years ended June 30, 2013, 2012 and 2011 totaled \$224,671, \$112,779 and \$109,790, respectively, and the contributions paid by employees totaled \$39,536, \$19,188 and \$18,705, respectively.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2013 and 2012

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>2013*</u>	<u>2012*</u>	<u>2011*</u>
Net assets available for benefits as percentages of the pension benefit obligations	47%	47%	49%
Prepaid (unfunded) pension benefit obligation as percentages of covered payroll	(286%)	(281%)	(283%)
Employer contributions (in accordance with actuarially determined requirements) as percentages of covered payroll	46.92%	23.51%	24.11%
Actuarial value of assets as a percentage of the actuarial accrued liability	45%	45%	47%
Ratio of the unfunded accrued liability to annual covered payroll	307%	300%	302%
Total unfunded accrued liability	\$ 1,469,486	1,436,961	1,375,963
Actuarial accrued liability	\$ 2,669,494	2,620,479	2,605,945
Actuarial value of plan assets	\$ 1,200,008	1,183,518	1,229,982

*An actuarial valuation was performed on April 1, 2013 and April 1, 2011. Estimated values have been calculated as of April 1, 2012.

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, 2013 and 2012

Note 5. Pension and Retirement Benefits (Continued)

Plan members are required to contribute 5.78% of their annual covered salary and the Water Works is required to contribute 8.67% of covered payroll. Contribution requirements are established by state statute. The Water Works' contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$41,028, \$36,382, and \$30,686, 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, 2013 and 2012, the amounts actually contributed to the plan and changes in the Water Work's net OPEB obligation:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 14,773	14,773
Interest on OPEB obligation	1,895	1,328
Adjustments to annual required contributions	<u>(1,920)</u>	<u>(1,920)</u>
Annual OPEB cost	14,748	14,181
Contributions made	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	14,748	14,181
Net OPEB obligation beginning of year	<u>47,386</u>	<u>33,205</u>
Net OPEB obligation end of year	<u>\$ 62,134</u>	<u>47,386</u>

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2013 and 2012

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, 2013.

For the year ended June 30, 2013, the Water Works contributed \$108,995 to the medical plan. Plan members eligible for benefits contributed \$34,446 or 24% 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, 2013 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
2013	14,748	0.0%	62,134

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, 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 \$922,135 and the ratio of the UAAL to covered payroll was 9.9 %. As of June 30, 2013 and 2012 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.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued) June 30, 2013 and 2012

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

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.

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 2013 and 2012. 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, 2013 and 2012

Note 9. Capital Assets

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

	<u>2013</u>	<u>2012</u>
Land	\$ 1,112,721	1,112,721
Plant and source of supply	9,790,908	9,660,889
Booster station	161,072	161,072
Distribution system and pipe	10,700,384	10,505,835
Meters	1,247,451	1,238,596
Machinery and equipment	390,920	381,820
Vehicles	198,429	199,451
Capital improvements	82,655	82,655
Capital improvements - buildings	569,769	560,294
Office equipment and furnishings	376,331	376,331
	<u>24,630,640</u>	<u>24,279,664</u>
Less accumulated depreciation	<u>(13,140,773)</u>	<u>(12,540,542)</u>
	<u>\$ 11,489,867</u>	<u>11,739,122</u>

Depreciation expense was \$623,220 for the year ended June 30, 2013 and \$620,942 for the year ended June 30, 2012.

Note 10. Date of Management Evaluation

Management has evaluated subsequent events through September 9, 2013, 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, 2013

	<u>Actual</u>	<u>Budgeted Amounts Original/Final</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for services	\$ 3,307,330	3,429,226	(121,896)
Miscellaneous	14,650	26,000	(11,350)
Total revenues	<u>3,321,980</u>	<u>3,455,226</u>	<u>(133,246)</u>
Expenses:			
Business type activities	<u>3,161,327</u>	<u>3,451,657</u>	<u>290,330</u>
Increase in net position	160,653	3,569	157,084
Net position beginning of year	<u>12,964,300</u>	<u>1,813,087</u>	<u>11,151,213</u>
Net position end of year	<u>\$ 13,124,953</u>	<u>1,816,656</u>	<u>11,308,297</u>

MARSHALLTOWN WATER WORKS

Notes to Required Supplementary Information -- Budgetary Reporting June 30, 2013

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 2013.

During the year ended June 30, 2013, 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%
2013	July 1, 2011	-	90,876	90,876	0.0%	922,135	9.9%

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.

Supplementary Information

MARSHALLTOWN WATER WORKS

Schedules of Net Position Detail June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Cash:			
Cash on hand	\$ 330	330	-
Petty cash	300	300	-
Cash in bank	1,023,592	736,641	286,951
Water deposits	60,785	57,540	3,245
	<u>1,085,007</u>	<u>794,811</u>	<u>290,196</u>
Cash held for city:			
Sewer deposit fund	82,280	77,510	4,770
Sewer cash	206,442	204,288	2,154
Storm sewer cash	19,940	22,589	(2,649)
Landfill cash	10,037	10,501	(464)
Total cash held for city	<u>318,699</u>	<u>314,888</u>	<u>3,811</u>
Total cash	<u>\$ 1,403,706</u>	<u>1,109,699</u>	<u>294,007</u>
Capital assets:			
Land	\$ 1,112,721	1,112,721	-
Plant and source of supply	9,790,908	9,660,890	130,018
Accumulated depreciation - plant	(7,684,479)	(7,304,406)	(380,073)
Distribution system and pipe	10,700,384	10,505,835	194,549
Accumulated depreciation - distribution	(3,244,785)	(3,112,454)	(132,331)
Booster station	161,072	161,072	-
Accumulated depreciation-booster station	(70,875)	(69,078)	(1,797)
Meters	1,247,451	1,238,596	8,855
Accumulated depreciation - meters	(970,831)	(937,477)	(33,354)
Machinery and equipment	390,920	381,820	9,100
Accumulated depreciation - machinery and equipment	(321,475)	(294,990)	(26,485)
Vehicles	198,429	199,451	(1,022)
Accumulated depreciation - vehicles	(119,024)	(120,746)	1,722
Capital improvements	82,655	82,655	-
Accumulated depreciation - capital improvements	(34,024)	(29,743)	(4,281)
Capital improvements - buildings	569,769	560,294	9,475
Accumulated depreciation - buildings	(329,940)	(313,398)	(16,542)
Office equipment and furnishings	376,331	376,331	-
Accumulated depreciation - office equipment and furnishings	<u>(365,340)</u>	<u>(358,251)</u>	<u>(7,089)</u>
Net capital assets	<u>\$ 11,489,867</u>	<u>11,739,122</u>	<u>(249,255)</u>

MARSHALLTOWN WATER WORKS

Schedules of Net Position Detail (Continued) June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Prepaid expenses:			
Prepaid insurance	\$ 10,459	14,798	(4,339)
Prepaid computer maintenance	17,225	16,405	820
Prepaid billing supplies	<u>2,866</u>	<u>5,436</u>	<u>(2,570)</u>
 Total prepaid expenses	 <u>\$ 30,550</u>	 <u>36,639</u>	 <u>(6,089)</u>
 Other receivables:			
Miscellaneous accounts receivable billings	\$ 29,455	29,713	(258)
Interest receivable	1,051	1,694	(643)
Contract receivables	<u>2,423</u>	<u>4,717</u>	<u>(2,294)</u>
 Total other receivables	 <u>\$ 32,929</u>	 <u>36,124</u>	 <u>(3,195)</u>
 Accrued liabilities:			
Accrued sales tax	\$ 12,854	13,212	(358)
Accrued F.I.C.A.	2,614	2,327	287
Accrued payroll	35,734	30,420	5,314
Accrued pension	1,551	1,146	405
Accrued vacation	106,173	78,303	27,870
Accrued retirement expense	1,505	1,179	326
Insurance deductible	<u>(30,125)</u>	<u>(11,051)</u>	<u>(19,074)</u>
 Total accrued liabilities	 <u>\$ 130,306</u>	 <u>115,536</u>	 <u>14,770</u>

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Salaries:			
Operational	\$ <u>363,236</u>	<u>341,510</u>	<u>21,726</u>
Employee benefits:			
Health insurance	42,750	43,365	(615)
Pension	55,330	45,785	9,545
Social security	26,571	24,989	1,582
Life insurance	804	793	11
Mileage	45	517	(472)
Registration	2,894	2,736	158
Lodging	1,077	551	526
Safety clothing	686	620	66
Safety training	63	50	13
Dues	167	167	-
Food	541	628	(87)
Travel	362	1,743	(1,381)
	<u>131,290</u>	<u>121,944</u>	<u>9,346</u>
Utilities:			
Electric	218,739	210,071	8,668
Gas	12,146	12,294	(148)
Internet	369	219	150
Telephone	1,328	1,314	14
	<u>232,582</u>	<u>223,898</u>	<u>8,684</u>
Depreciation:			
Plant depreciation	379,959	380,570	(611)
Vehicle depreciation	5,538	-	5,538
	<u>385,497</u>	<u>380,570</u>	<u>4,927</u>
Fuels:			
Gas	2,519	2,617	(98)
Oil	-	713	(713)
Diesel fuel	216	2,336	(2,120)
	<u>2,735</u>	<u>5,666</u>	<u>(2,931)</u>
Supplies:			
Lab supplies	18,476	17,635	841
Plant supplies	698	2,473	(1,775)

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Supplies (continued):			
Building supplies	215	47	168
Well supplies	450	46	404
Cleaning supplies	261	16	245
General supplies	1,367	1,307	60
Health and first aid	391	-	391
Operational fees and permits	115	800	(685)
CIWA meter pit supplies	182	37	145
Safety equipment	204	1	203
	<u>22,359</u>	<u>22,362</u>	<u>(3)</u>
Maintenance:			
Building maintenance	4,112	3,984	128
Machinery maintenance	12,645	11,147	1,498
Heating and air conditioner maintenance	965	-	965
Computer maintenance	709	3,260	(2,551)
Grounds maintenance	1,402	1,342	60
Well field maintenance	4,179	7,986	(3,807)
Safety equipment maintenance	447	139	308
Vehicle maintenance	836	1,349	(513)
	<u>25,295</u>	<u>29,207</u>	<u>(3,912)</u>
Chemicals:			
Pebble-lime	248,950	262,380	(13,430)
CO2	23,783	16,635	7,148
CL2	37,346	32,853	4,493
Fluoride	16,344	23,113	(6,769)
Poly-phosphate	13,124	9,092	4,032
Lime sludge removal	272,636	254,200	18,436
Sodium chlorite	10,018	10,676	(658)
	<u>622,201</u>	<u>608,949</u>	<u>13,252</u>
Contract services:			
Lab services	2,214	1,978	236
	<u>2,214</u>	<u>1,978</u>	<u>236</u>
Total treatment plant	\$ <u>1,787,409</u>	<u>1,736,084</u>	<u>51,325</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Salaries:			
General salaries	\$ <u>203,950</u>	<u>198,356</u>	<u>5,594</u>
Employee benefits:			
Health insurance	25,495	23,445	2,050
Pension	32,986	37,333	(4,347)
Social security	15,454	14,866	588
Life insurance	432	476	(44)
Registration	650	170	480
Food	8	20	(12)
Lodging	319	72	247
Medical	114	-	114
Safety clothing	1,603	1,678	(75)
Safety training	63	50	13
	<u>77,124</u>	<u>78,110</u>	<u>(986)</u>
Depreciation:			
Distribution depreciation	132,331	130,141	2,190
Vehicle depreciation	13,328	-	13,328
Booster station depreciation	1,797	1,797	-
Equipment depreciation	26,485	32,366	(5,881)
	<u>173,941</u>	<u>164,304</u>	<u>9,637</u>
Fuels:			
Gas	3,784	4,391	(607)
Oil	794	472	322
Grease	67	79	(12)
Diesel fuel	5,838	6,464	(626)
	<u>10,483</u>	<u>11,406</u>	<u>(923)</u>

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Supplies:			
Distribution supplies	5,942	6,163	(221)
Shop supplies	1,977	1,906	71
Leak repair supplies	29,805	14,849	14,956
Hydrant and valve supplies	4,073	5,785	(1,712)
Booster station supplies	-	461	(461)
Safety equipment	343	68	275
Data processing supplies	110	75	35
	<u>42,250</u>	<u>29,307</u>	<u>12,943</u>
Maintenance:			
Vehicle maintenance	597	5,198	(4,601)
Equipment maintenance	3,356	3,623	(267)
Computer maintenance	820	820	-
Safety equipment maintenance	-	10	(10)
Tower maintenance	391	345	46
Well field maintenance	9	233	(224)
Reservoir maintenance	6	-	6
Booster station maintenance	861	874	(13)
	<u>6,040</u>	<u>11,103</u>	<u>(5,063)</u>
 Total construction and maintenance	<u>\$ 513,788</u>	<u>492,586</u>	<u>21,202</u>

MARSHALLTOWN WATER WORKS

Schedules of Customer Service and Meter Expenses For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Salaries:			
Salaries	\$ <u>127,650</u>	<u>122,508</u>	<u>5,142</u>
Employee benefits:			
Health insurance	23,680	22,800	880
Pension	19,017	17,938	1,079
Social security	9,115	8,779	336
Life insurance	300	296	4
Safety clothing	460	768	(308)
Safety training	-	50	(50)
	<u>52,572</u>	<u>50,631</u>	<u>1,941</u>
Depreciation:			
Vehicle depreciation	2,515	12,696	(10,181)
Meter depreciation	33,355	32,989	366
	<u>35,870</u>	<u>45,685</u>	<u>(9,815)</u>
Fuels:			
Gas	5,396	6,290	(894)
Oil	102	9	93
LP	36	-	36
Grease	-	34	(34)
	<u>5,534</u>	<u>6,333</u>	<u>(799)</u>
Maintenance:			
Vehicle maintenance	499	737	(238)
Equipment maintenance	82	271	(189)
Computer maintenance	-	47	(47)
	<u>581</u>	<u>1,055</u>	<u>(474)</u>
Supplies:			
General supplies	2,361	883	1,478
Meter repair supplies	1,773	2,486	(713)
Shop supplies	553	520	33
Service repair supplies	2,106	71	2,035
	<u>6,793</u>	<u>3,960</u>	<u>2,833</u>
Total customer service and meter	\$ <u><u>229,000</u></u>	<u><u>230,172</u></u>	<u><u>(1,172)</u></u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Salaries:			
Administrative salaries	\$ <u>280,644</u>	<u>267,211</u>	<u>13,433</u>
Employee benefits:			
Health insurance	16,670	14,955	1,715
Pension	56,406	47,913	8,493
Social security	20,511	19,752	759
Life insurance	718	708	10
Mileage	2,745	3,641	(896)
Registration fees	330	705	(375)
Dues and subscriptions	4,979	5,431	(452)
Lodging	512	884	(372)
Safety clothing	53	-	53
Food	71	169	(98)
	<u>102,995</u>	<u>94,158</u>	<u>8,837</u>
Utilities:			
Electricity	7,357	7,008	349
Gas	3,454	3,267	187
Internet expense	238	219	19
Telephone	6,221	6,009	212
	<u>17,270</u>	<u>16,503</u>	<u>767</u>
Depreciation:			
Building depreciation	16,542	16,565	(23)
Capital improvement depreciation	4,281	4,014	267
Equipment depreciation	7,089	9,804	(2,715)
	<u>27,912</u>	<u>30,383</u>	<u>(2,471)</u>
General supplies:			
Office supplies	4,218	4,220	(2)
Data processing supplies	1,822	1,331	491
General supplies	5,362	3,830	1,532
Building supplies	-	16	(16)
Operational fees and permits	4,996	4,155	841
Health and first aid	1,173	918	255
	<u>17,571</u>	<u>14,470</u>	<u>3,101</u>

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Maintenance:			
Computer maintenance	25,548	24,364	1,184
Office machine maintenance	2,804	2,562	242
Heating and air conditioner maintenance	3	-	3
Building maintenance	2,325	2,631	(306)
	<u>30,680</u>	<u>29,557</u>	<u>1,123</u>
Administrative expenses:			
Insurance	66,425	58,815	7,610
Banking services	5,001	3,449	1,552
Legal services	6,770	6,092	678
Cleaning services	5,589	6,038	(449)
Accounting services	10,695	7,650	3,045
Postage	17,507	19,530	(2,023)
Public notices	2,901	4,679	(1,778)
Contract services	1,222	1,544	(322)
	<u>116,110</u>	<u>107,797</u>	<u>8,313</u>
 Total administrative expenses	 <u>\$ 593,182</u>	 <u>560,079</u>	 <u>33,103</u>
 Non-operating expenses:			
Interest expense	\$ 14,300	21,089	(6,789)
Board compensation	900	900	-
Miscellaneous	14,748	14,546	202
Economic development	8,000	8,000	-
	<u>37,948</u>	<u>44,535</u>	<u>(6,587)</u>
 Total non-operating expenses	 <u>\$ 37,948</u>	 <u>44,535</u>	 <u>(6,587)</u>

MARSHALLTOWN WATER WORKS

Schedules of Indebtedness For the Year Ended June 30, 2013

	<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	\$ 440,000
Issued during year	-
Redeemed during year	<u>215,000</u>
Balance, end of year	\$ <u>225,000</u>
Current portion (due in one year)	\$ <u>225,000</u>

For the Year Ended June 30, 2012

	<u>Revenue Note</u>
Date of issue	April 15, 2009
Interest rates	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>

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 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 the financial statements of Marshalltown Water Works, as of and for the years ended June 30, 2013 and 2012, and the related notes to financial statements, and have issued our report thereon dated September 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Marshalltown Water Works' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marshalltown Water Works internal control. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Water Works' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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, 2013 and 2012 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Water Works' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Works' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 9, 2013

MARSHALLTOWN WATER WORKS

Schedule of Findings Years Ended June 30, 2013 and 2012

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:

- 13-II-A Certified Budget - Expenditures during the years ended June 30, 2013 and 2012, did not exceed the amounts budgeted.
- 13-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.
- 13-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.
- 13-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 13-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.
- 13-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 13-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.
- 13-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.
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Marshalltown, Iowa

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