

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

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

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

Gowrie Municipal Utilities  
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, 2018
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

#### Report on the Financial Statement

We have audited the accompanying financial statement of Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statement.

#### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatements, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statement 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 Utilities' 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 statement.

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

### Opinion

In our opinion, the financial statement referred to above 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, 2013, 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.

### Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a 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. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement of Gowrie Municipal Utilities. 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.

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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the 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 financial statement taken as a whole.

The other information, Management's Discussion and Analysis and budgetary comparison information on pages 5 through 8 and 17 through 18 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 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 in considering Gowrie Municipal Utilities' internal control over financial reporting and compliance.

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

November 25, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statement, which follows.

### **2013 FINANCIAL HIGHLIGHTS**

- Operating receipts of the Utilities increased 3.2%, or approximately \$43,000 from fiscal 2012 to fiscal 2013.
- Operating disbursements increased 6.4%, or approximately \$71,000 in fiscal 2013 compared to fiscal 2012.
- The Utilities' cash balance decreased 18.1%, or approximately \$194,000, from June 30, 2012 to June 30, 2013.

### **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 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 cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statement. The annual report consists of the financial statement and other information, as follows:

- 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 Balance presents information on the Gowrie Municipal Utilities’ receipts and disbursements, non-operating receipts and disbursements and whether the Utilities’ cash basis financial position has improved or deteriorated as a result of the year’s activities.
- The 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 details of the Utilities’ indebtedness at June 30, 2013.

## FINANCIAL ANALYSIS OF THE GOWRIE MUNICIPAL UTILITIES

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

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 balance at year end. Over time, readers of the financial statement are able to determine the Gowrie Municipal Utilities’ cash basis financial position by analyzing the increase and decrease in cash basis balance.

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 balance for the years ended June 30, 2013 and June 30, 2012 is as follows:

	Changes in Cash Balance (Expressed in Thousands)	
	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service	\$ 1,336	1,294
General receipts:		
Unrestricted interest on investments	5	10
Bond proceeds	---	550

Other general receipts	<u>94</u>	<u>74</u>
Total receipts	<u>1,435</u>	<u>1,928</u>
Disbursements	<u>1,629</u>	<u>2,124</u>
Change in cash balance	(194)	(196)
Cash balance beginning of year	<u>1,072</u>	<u>1,268</u>
Cash balance end of year	\$ 878 =====	1,072 =====

Total receipts for the fiscal year were \$1.435 million compared to \$1.928 million last year. The decrease was due primarily to bond proceeds received in 2012 and not in 2013. The cash balance decreased by approximately \$194,000 from the prior year. Total disbursements for the fiscal year decreased by 23.3% to a total of \$1.629 million. This decrease was due to the purchase of a generator for the electric department in 2012 but not in 2013.

#### **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 to increase disbursements for the generator project and equipment purchases during the year ended June 30, 2013.

The Utilities' receipts were \$59,141 more than budgeted. This was primarily due to the Utilities' receiving more miscellaneous receipts than anticipated.

Total disbursements were \$164,575 less than budgeted. This was primarily due to the budget amendment being sufficient to cover disbursements.

#### **DEBT ADMINISTRATION**

At June 30, 2013, the Utilities had \$1,325,226 in notes and bonds outstanding, compared to \$1,439,240 last year, as shown below.

Outstanding Debt at Year-End  
(Expressed in Thousands)

	June 30,	
	2013	2012
Revenue note	\$ 518	576
Revenue bond	807	863
Total	\$ 1,325	1,439
	=====	=====

**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 the spring of 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. An inspection revealed that the interior will not need repainted as soon as the exterior. 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 received from Verizon. (Currently at \$5,184 per year.)

Water rates need to be assessed along with sewer rates because the sewer fund did not meet the bond covenants for 2012-2013 and the water fund only met the covenant by a few hundred dollars. Iowa Rural Water will help with a free rate study but an increase may need to be implemented before the rate study can be finished.

**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 Balance

As of and for the year ended June 30, 2013

Operating receipts:	
Use of money and property	\$ 5,184
Charges for service	1,335,538
Miscellaneous	49,988
Total operating receipts	<u>1,390,710</u>
Operating disbursements:	
Business type activities	<u>1,195,266</u>
Total operating disbursements	<u>1,195,266</u>
Excess of operating receipts over operating disbursements	<u>195,444</u>
Non-operating receipts (disbursements):	
Interest on investments	4,677
Miscellaneous	39,285
Capital outlay	(271,885)
Debt service	(161,536)
Net non-operating receipts (disbursements)	<u>(389,459)</u>
Change in cash balance	(194,015)
Cash balance beginning of year	<u>1,071,905</u>
Cash balance end of year	<u><u>877,890</u></u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Debt service	88,850
Customer deposits	10,017
Improvements	150,427
Unrestricted	<u>628,596</u>
Total cash basis fund balance	<u><u>\$ 877,890</u></u>

See notes to financial statements.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2013

**(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.

Enterprise 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 an Enterprise fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. 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 the financial position and results of operations of the Utilities in accordance with U.S. generally accepted accounting principles.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2013

D. Fund Balance

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, 2013, disbursements did not exceed the amount budgeted.

(2) **Cash**

The Utilities' deposits in banks at June 30, 2013 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, 2013. 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, 2013

**(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 Notes</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>
2014	\$ 60,002	17,409	57,000	24,210	117,002	41,619
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	35,054	12,119	64,000	17,100	99,054	29,219
2019-2023	194,440	41,429	350,000	55,500	544,440	96,929
2024-2026	<u>130,482</u>	<u>7,856</u>	<u>156,000</u>	<u>8,310</u>	<u>286,482</u>	<u>16,166</u>
Total	\$ 518,226	122,086	807,000	167,340	1,325,226	289,426

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 32 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$30,238. For the current year, principal and interest paid and total customer net receipts were \$30,316 and \$97,116 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 49 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$610,074. For the current year, principal and interest paid and total customer net receipts were \$47,174 and \$97,116 respectively.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2013

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 89 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$431,640. For the current year, principal and interest paid and total customer net receipts were \$39,730 and \$44,109, 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 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$542,700. For the current year, principal and interest paid and total customer net receipts were \$42,160 and \$42,524 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, 2013

- (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.

Plan members are required to contribute 5.78% of their annual salary and the Utilities are required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$19,910, \$17,455, and \$15,151 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, 2013, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 11,298
	=====

This liability has been computed based on rates of pay in effect at June 30, 2013.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2013

**(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, 2013 was \$948. Future rentals are scheduled as follows:

Year Ending <u>June 30,</u>	
2014	\$ 948
2015	948
2016	<u>869</u>
Total	<u>\$ 2,765</u>

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Financial Statement

June 30, 2013

**(9) Construction Commitment**

The Utilities has entered into a contract totaling \$128,926 for the installation of a generator. As of June 30, 2013, costs of \$52,935 had been incurred against the contract. The balance of \$75,991 remaining at June 30, 2013 will be paid as work on the generator progress.

**(10) Subsequent Events**

Subsequent events have been evaluated through November 25, 2013, which is the date the financial statements were available to be issued.

## **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, 2013

	<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	\$ 9,861	5,184	5,184	4,677
Charges for service	1,335,538	1,319,700	1,319,700	15,838
Miscellaneous	<u>89,273</u>	<u>50,647</u>	<u>50,647</u>	<u>38,626</u>
Total receipts	<u>1,434,672</u>	<u>1,375,531</u>	<u>1,375,531</u>	<u>59,141</u>
Disbursements:				
Business type activities	<u>1,628,687</u>	<u>1,425,262</u>	<u>1,793,262</u>	<u>164,575</u>
Deficiency of receipts under disbursements	(194,015)	(49,731)	(417,731)	223,716
Other financing uses	<u>-</u>	<u>(1,200)</u>	<u>(1,200)</u>	<u>1,200</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(194,015)	(50,931)	(418,931)	224,916
Balances beginning of year	<u>1,071,905</u>	<u>(1,042,693)</u>	<u>(1,042,693)</u>	<u>2,114,598</u>
Balances end of year	<u>\$ 877,890</u>	<u>(1,093,624)</u>	<u>(1,461,624)</u>	<u>2,339,514</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Notes to Other Information – Budgetary Reporting

June 30, 2013

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 disbursements by \$368,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, 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 Balances  
Electric Department

As of and for the year ended June 30, 2013

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sale of electricity	\$ 951,816	-	951,816
Reconnection fees	100	-	100
	951,916	-	951,916
Miscellaneous:			
Merchandise and labor sales	6,864	-	6,864
Sales tax collected	35,549	-	35,549
	42,413	-	42,413
Total operating receipts	994,329	-	994,329
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	159,035	-	159,035
FICA - Employer's portion	12,166	-	12,166
IPERS - Employer's portion	13,474	-	13,474
Group insurance	29,628	-	29,628
Uniforms	572	-	572
Employee medical reimbursement	9,470	-	9,470
Workers compensation	6,106	-	6,106
	230,451	-	230,451
Services and commodities:			
Advertising and legal publication	1,614	-	1,614
Consulting and legal	1,183	-	1,183
Power purchased	495,292	-	495,292
General insurance	16,334	-	16,334
Miscellaneous contractual work	7,110	-	7,110
Postage and shipping	1,233	-	1,233
Sales and property tax remitted	49,825	-	49,825
Telephone	2,032	-	2,032
Travel and conference	233	-	233
Utility service	10,541	-	10,541
Dues and memberships	4,981	-	4,981
Buildings and maintenance supplies	6,892	-	6,892
Small equipment	9,167	-	9,167
Motor vehicle supplies and maintenance	8,927	-	8,927
Office supplies	13,633	-	13,633
Operating supplies and materials	2,089	-	2,089

(continued)

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 1

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Electric Department

As of and for the year ended June 30, 2013

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Refunds	1,373	-	1,373
Contribution to City	23,288	-	23,288
Distribution supplies and material	11,015	-	11,015
	<u>666,762</u>	<u>-</u>	<u>666,762</u>
Total operating disbursements	<u>897,213</u>	<u>-</u>	<u>897,213</u>
Excess of operating receipts over operating disbursements	<u>97,116</u>	<u>-</u>	<u>97,116</u>
Non-operating receipts (disbursements):			
Interest on investments	2,570	27	2,597
Miscellaneous	34,022	-	34,022
Capital outlay:			
Equipment	(11,210)	-	(11,210)
Generator project	(235,850)	-	(235,850)
Debt service:			
Principal	-	(58,014)	(58,014)
Interest and fees	-	(19,475)	(19,475)
Net non-operating receipts (disbursements)	<u>(210,468)</u>	<u>(77,462)</u>	<u>(287,930)</u>
Deficiency of receipts under disbursements	(113,352)	(77,462)	(190,814)
Operating transfers in	10,567	77,580	88,147
Operating transfers out	<u>(102,405)</u>	<u>-</u>	<u>(102,405)</u>
Change in cash balances	(205,190)	118	(205,072)
Cash balance beginning of year	<u>578,076</u>	<u>6,711</u>	<u>584,787</u>
Cash balance end of year	<u>\$ 372,886</u>	<u>6,829</u>	<u>379,715</u>
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	6,829	6,829
Unrestricted	<u>372,886</u>	<u>-</u>	<u>372,886</u>
Total cash basis fund balances	<u>\$ 372,886</u>	<u>6,829</u>	<u>379,715</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 Balances  
Water Department

As of and for the year ended June 30, 2013

	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	155,481	-	-
Reconnection fees	<u>25</u>	<u>-</u>	<u>-</u>
	<u>155,506</u>	<u>-</u>	<u>-</u>
Miscellaneous:			
Merchandise and labor sales	-	-	-
Total operating receipts	<u>155,506</u>	<u>-</u>	<u>-</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	39,443	-	-
FICA - Employer's portion	3,018	-	-
IPERS - Employer's portion	3,420	-	-
Group insurance	8,672	-	-
Uniforms	200	-	-
Workers compensation	<u>1,437</u>	<u>-</u>	<u>-</u>
	<u>56,190</u>	<u>-</u>	<u>-</u>
Services and commodities:			
Advertising and legal publication	1,194	-	-
Consulting and legal	364	-	-
General insurance	3,802	-	-
Miscellaneous contractual work	9,654	-	-
Postage and shipping	399	-	-
Telephone	1,597	-	-
Travel and conference	367	-	-
Utility service	13,732	-	-
Dues and memberships	567	-	-
Building and maintenance supplies	377	-	-
Small equipment	4,926	-	-
Chemicals and testing	2,477	-	-
Motor vehicle supplies and maintenance	888	-	-
Office supplies	4,115	-	-
Operating supplies and materials	4,105	-	-
Distribution supplies and material	5,569	-	-
Contribution to City	<u>1,074</u>	<u>-</u>	<u>-</u>
	<u>55,207</u>	<u>-</u>	<u>-</u>
Total operating disbursements	<u>111,397</u>	<u>-</u>	<u>-</u>

Schedule 2

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
5,184	-	5,184
2,413	-	157,894
-	-	25
2,413	-	157,919
-	-	-
7,597	-	163,103
-	-	39,443
-	-	3,018
-	-	3,420
-	-	8,672
-	-	200
-	-	1,437
-	-	56,190
-	-	1,194
-	-	364
-	-	3,802
-	-	9,654
-	-	399
-	-	1,597
-	-	367
-	-	13,732
-	-	567
-	-	377
-	-	4,926
-	-	2,477
-	-	888
-	-	4,115
-	-	4,105
-	-	5,569
-	-	1,074
-	-	55,207
-	-	111,397

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Water Department

As of and for the year ended June 30, 2013

	<u>Water Operations &amp; Maintenance</u>	<u>Water Sinking 2004 Project</u>	<u>Water Reserve</u>
Excess of operating receipts over operating disbursements	44,109	-	-
Non-operating receipts (disbursements):			
Interest on investments	818	-	7
Miscellaneous	4,808	-	-
Capital outlay:			
Equipment	(24,825)	-	-
Debt service:			
Principal	-	(28,000)	-
Interest and fees	-	(12,707)	-
Net non-operating receipts (disbursements)	<u>(19,199)</u>	<u>(40,707)</u>	<u>7</u>
Excess (deficiency) of receipts over (under) disbursements	24,910	(40,707)	7
Operating transfers in	26,869	40,661	-
Operating transfers out	<u>(42,903)</u>	<u>-</u>	<u>-</u>
Change in cash balances	8,876	(46)	7
Cash balances beginning of year	<u>83,184</u>	<u>919</u>	<u>115,472</u>
Cash balances end of year	<u>\$ 92,060</u>	<u>873</u>	<u>115,479</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	873	77,499
Improvements	-	-	37,980
Unrestricted	<u>92,060</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 92,060</u>	<u>873</u>	<u>115,479</u>

See accompanying independent auditor's report.

Schedule 2

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
<u>7,597</u>	<u>-</u>	<u>51,706</u>
431	-	1,256
-	-	4,808
-	-	(24,825)
-	-	(28,000)
<u>-</u>	<u>-</u>	<u>(12,707)</u>
<u>431</u>	<u>-</u>	<u>(59,468)</u>
8,028	-	(7,762)
-	-	67,530
<u>-</u>	<u>-</u>	<u>(42,903)</u>
8,028	-	16,865
<u>84,419</u>	<u>20,000</u>	<u>303,994</u>
<u>92,447</u>	<u>20,000</u>	<u>320,859</u>
-	-	78,372
92,447	20,000	150,427
<u>-</u>	<u>-</u>	<u>92,060</u>
<u>92,447</u>	<u>20,000</u>	<u>320,859</u>

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 3

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Sewer Department

As of and for the year ended June 30, 2013

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sewer rental fees	\$ 137,248	-	137,248
Total operating receipts	<u>137,248</u>	<u>-</u>	<u>137,248</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	34,788	-	34,788
FICA - Employer's portion	2,661	-	2,661
IPERS - Employer's portion	3,016	-	3,016
Group insurance	8,672	-	8,672
Uniforms	200	-	200
Workers compensation	<u>1,552</u>	<u>-</u>	<u>1,552</u>
	<u>50,889</u>	<u>-</u>	<u>50,889</u>
Services and commodities:			
Advertising and legal publication	183	-	183
Consulting and legal	273	-	273
General insurance	2,758	-	2,758
Miscellaneous contractual work	18,208	-	18,208
Postage and shipping	281	-	281
Telephone	817	-	817
Travel and conference	54	-	54
Utility service	12,984	-	12,984
Dues and memberships	338	-	338
Building and maintenance supplies	134	-	134
Small equipment	1,537	-	1,537
Motor vehicle supplies and maintenance	905	-	905
Office supplies	3,086	-	3,086
Operating supplies and materials	2,087	-	2,087
Distribution supplies and materials	<u>190</u>	<u>-</u>	<u>190</u>
	<u>43,835</u>	<u>-</u>	<u>43,835</u>
Total operating disbursements	<u>94,724</u>	<u>-</u>	<u>94,724</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 Balances  
Sewer Department

As of and for the year ended June 30, 2013

	<u>Sewer Revenue</u>	<u>Sewer Sinking</u>	<u>Total</u>
Excess of operating receipts over operating disbursements	<u>42,524</u>	<u>-</u>	<u>42,524</u>
Non-operating receipts (disbursements):			
Interest on investments	724	-	724
Miscellaneous	455	-	455
Debt service:			
Principal	-	(28,000)	(28,000)
Interest and fees	<u>-</u>	<u>(15,340)</u>	<u>(15,340)</u>
Net non-operating receipts (disbursements)	<u>1,179</u>	<u>(43,340)</u>	<u>(42,161)</u>
Excess (deficiency) of receipts over (under) disbursements	43,703	(43,340)	363
Operating transfers in	1,533	43,352	44,885
Operating transfers out	<u>(45,033)</u>	<u>-</u>	<u>(45,033)</u>
Change in cash balances	203	12	215
Cash balances beginning of year	<u>148,496</u>	<u>3,637</u>	<u>152,133</u>
Cash balances end of year	<u>\$ 148,699</u>	<u>3,649</u>	<u>152,348</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	3,649	3,649
Unrestricted	<u>148,699</u>	<u>-</u>	<u>148,699</u>
Total cash basis fund balances	<u>\$ 148,699</u>	<u>3,649</u>	<u>152,348</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 Balance  
Garbage Department

As of and for the year ended June 30, 2013

	Garbage
Operating receipts:	
Charges for service:	
Garbage service	\$ 88,455
Total operating receipts	88,455
Operating disbursements:	
Business type activities:	
Services and commodities:	
Miscellaneous contractual work	83,140
Other agency payments	3,392
Total operating disbursements	86,532
Excess of operating receipts over operating disbursements	1,923
Non-operating receipts:	
Interest on investments	85
Excess of receipts over disbursements	2,008
Operating transfer out	(10,221)
Change in cash balance	(8,213)
Cash balance beginning of year	23,164
Cash balance end of year	\$ 14,951
<b>Cash Basis Fund Balance</b>	
Unrestricted	\$ 14,951
Total cash basis fund balance	\$ 14,951

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 Balance  
Meter Deposits

As of and for the year ended June 30, 2013

	<u>Meter Deposits</u>
Operating receipts:	
Miscellaneous	\$ 7,575
Total operating receipts	<u>7,575</u>
Operating disbursements:	
Business type activities	<u>5,400</u>
Total operating disbursements	<u>5,400</u>
Excess of operating receipts over operating disbursements	<u>2,175</u>
Non-operating receipts:	
Interest on investments	<u>15</u>
Change in cash balance	2,190
Cash balance beginning of year	<u>7,827</u>
Cash balance end of year	<u><u>\$ 10,017</u></u>
<b>Cash Basis Fund Balance</b>	
Restricted for customer deposits	\$ 10,017
Total cash basis fund balance	<u><u>\$ 10,017</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, 2013

<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>\$ 57,899</u>	<u>-</u>	<u>28,468</u>	<u>29,431</u>	<u>1,848</u>	<u>-</u>
<u>\$ 391,000</u>	<u>-</u>	<u>28,000</u>	<u>363,000</u>	<u>11,730</u>	<u>-</u>
<u>\$ 472,000</u>	<u>-</u>	<u>28,000</u>	<u>444,000</u>	<u>14,160</u>	<u>-</u>
<u>\$ 518,341</u>	<u>-</u>	<u>29,546</u>	<u>488,795</u>	<u>17,628</u>	<u>-</u>

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie

Schedule 7

Revenue Note Maturities

June 30, 2013

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>
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
2014	3.65 %	\$ 29,431	3.45 %	\$ 30,572	60,003
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	42,904	42,904
Total		<u>\$ 29,431</u>		<u>\$ 488,795</u>	<u>518,226</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, 2013

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>	
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>\$ 363,000</u>		<u>\$ 444,000</u>	<u>\$ 807,000</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, 2013

<u>Insurer</u>	<u>Coverage</u>	<u>Amount</u>
Employers Mutual Casualty Insurance Companies (Expires 4-1-2014)	<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>	4,754,490
	<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, 2013

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

Commercial	127
Residential	476
Street lights	1

2. Electricity purchased – 8,045,437 K.W.H.

3. Electricity billed – 7,454,912 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, 2013

Number of customers served      474

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, 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 statement of the Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statement, and have issued our report thereon November 25, 2013. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Gowrie Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Gowrie Municipal Utilities' 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. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

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

or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Gowrie Municipal Utilities' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-13 and I-B-13 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-13 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, 2013 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

Gowrie Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Gowrie Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### 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 Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' 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 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

November 25, 2013

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie  
Schedule of Findings  
Year ended June 30, 2013

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-13 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-13 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

A Component Unit of the City of Gowrie

Schedule of Findings

Year ended June 30, 2013

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-13 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.

Gowrie Municipal Utilities  
A Component Unit of the City of Gowrie  
Schedule of Findings  
Year ended June 30, 2013

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-13 Certified Budget - The City of Gowrie and Gowrie Municipal Utilities submit a combined budget. The Utilities disbursements during the year ended June 30, 2013, did not exceed the amount budgeted.
- II-B-13 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-13 Travel Disbursements - No disbursements of the Utilities’ money for travel disbursements of spouses of the Utilities’ officials or employees were noted.
- II-D-13 Business Transactions – No business transactions between the Utilities and Utilities’ officials or employees were noted.
- II-E-13 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-13 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-13 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.

Gowrie Municipal Utilities

A Component Unit of the City of Gowrie

Schedule of Findings

Year ended June 30, 2013

II-H-13 Revenue Bond and Notes – The Utilities did not comply with all of the revenue bond and note provisions. The Sewer Fund did not maintain net revenues of 110% of the bond/note principal and interest due in 2013.

Recommendation – The Utilities should evaluate the rates currently being charged to customers to see if increases need to be implemented in order to meet the 110% net revenue requirement.

Response – We will evaluate whether increases are needed to be in compliance with our bond covenants.

Conclusion – Response accepted.