

**CENTERVILLE
MUNICIPAL WATERWORKS
A COMPONENT UNIT OF
THE CITY OF CENTERVILLE**

Independent Auditors' Report
Basic Financial Statements and Supplemental Information
Schedule of Findings

Year Ended June 30, 2004

**CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE**

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CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Waterworks' Officials
June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Bratz	Trustee	August, 2006
Rob Lind	Trustee	August, 2004
Dwight Riley	Trustee	August, 2008
Jerry Baker	Trustee	August, 2007
Linda Miller	Trustee	August, 2004
Bill Ursta	General Manager	
Kay Guffey	Office Supervisor	Indefinite
Roxanne Herber	Clerk	Indefinite



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Independent Auditors' Report

To the Board of Waterworks Trustees
Centerville Municipal Waterworks
Centerville, Iowa

We have audited the accompanying financial statements of the Centerville Municipal Waterworks, a component unit of the City of Centerville, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Centerville Municipal Waterworks' officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than the U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities of the Centerville Municipal Waterworks, a component unit of the City of Centerville, Iowa, as of and for the year ended June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 10 to the financial statements, during the year ended June 30, 2004, the Centerville Municipal Waterworks adopted Government Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2004 on our consideration of the Centerville Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that comprise the Centerville Municipal Waterworks' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in pages 16 through 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Theobald, Donohue & Thompson, P.C.

Centerville, Iowa
November 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Centerville Municipal Waterworks provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Centerville Municipal Waterworks is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Waterworks' financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

The highlights for the fiscal year July 1, 2003 to June 30, 2004 are as follows:

We have tried to cut costs by making an office employee part time in September of 2003 and by laying off a plant operator at the same time. This move has increased our Rathbun Regional Water Association (RRWA) amount of water we are taking by not running the plant on weekends. This is saving us some costs as the more water we take from RRW the cost goes down and there are less employee issues.

We did not take on any major projects through out the year, as we have tried to save money for the coming year which may see a large capital outlay.

We did a water rate increase in March of 2004. We are hoping for a \$3,000 to \$6,000 increase in revenue each month from the water rate increase. At the end of the fiscal year on June 30, 2004 we were seeing the increase to start to raise our checking account deposits, but we have also seen an increase in almost all of our costs. Another rate increase in 2005 should not be ruled out as we have projects on the horizon.

USING THIS ANNUAL REPORT

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

This discussion and analysis are intended to serve as an introduction to the Centerville Municipal Waterworks' basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks' financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds presents information on the Waterworks' operating receipts and disbursements, non-operating receipts and disbursements and whether the Waterworks' financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

- The Supplementary Information provides detailed information on the Waterworks' reserved funds, indebtedness, and bond maturities.

Basis of Accounting

The Waterworks maintains its financial records on a cash basis of accounting and the financial statements of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

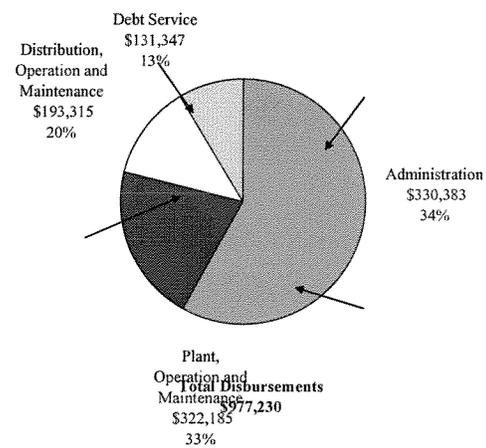
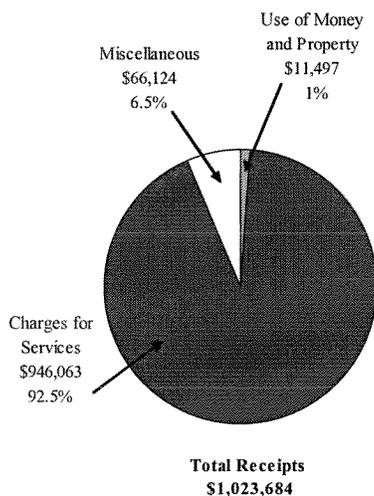
FINANCIAL ANALYSIS OF THE WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds

Changes in cash basis fund balances as based on the activity presented in the Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds serves as an indicator as to whether the financial position of the Waterworks is improving or deteriorating. The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating.

Operating receipts are those receipts received for fees charged based on water usage, and service charges to consumers of water in the Centerville community. Operating disbursements are disbursements paid for the operation and administration of the water plant and related water and sewer lines in Centerville. Non-operating receipts and disbursements are for interest on investments, debt proceeds, debt issue costs and changes in customers' deposits.

Total cash receipts for the fiscal year 2004 were \$1,023,684 and total cash disbursements were \$977,230. The following graphs present a breakdown of these items.



In fiscal year 2004, operating receipts increased \$26,571, or 3%, while operating disbursements decreased \$166,609, approximately 16.5% from fiscal year 2003. The net change for fiscal year 2004 to the cash fund balances was an increase of \$50,471. Some of the reasons for this increase were due to the following decreases in expenditures:

- Engineering fees decreased \$11,602
- New meters purchased decreased \$15,920
- New water main purchases decreased \$2,484

Another reason for the increase in fund balances was due to the previously mentioned employee changes. The office went from having two full-time office employees to having one full and one part-time employee in September 2003. This part-time position became a 20 hour per week position with no health insurance paid. We also laid off a water plant operator at the same time. However, most of the savings related to that expense was offset by the purchase of more potable water from RRWA.

We are also seeing a benefit from the refinancing of the Water Revenue Bonds in March of 2003 as we have a \$17,888 decrease in the amount of interest paid as compared to fiscal year 2003.

A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2004 and 2003 are shown below.

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2004	2003
Operating receipts:		
Charges for service	\$ 946,063	\$ 924,183
Miscellaneous	66,124	61,433
Total operating receipts	<u>1,012,187</u>	<u>985,616</u>
Operating disbursements:		
Business type activities	845,883	1,012,492
Total operating disbursements	<u>845,883</u>	<u>1,012,492</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>166,304</u>	<u>(26,876)</u>
Non-operating receipts (disbursements):		
Use of money and property	11,497	24,154
Proceeds from sale of property	200	10,500
Water revenue bond proceeds	-	990,000
Water revenue bond repayments	(100,000)	(1,050,000)
Loan proceeds	-	17,231
Loan principal repayments	(5,626)	-
Debt service interest expense	(25,721)	(43,609)
Net change in customers' deposits	3,817	(2,494)
Total non-operating receipts (disbursements)	<u>(115,833)</u>	<u>(54,218)</u>
Net change in cash balances	50,471	(81,094)
Balance, beginning of year	<u>549,827</u>	<u>630,921</u>
Balance, end of year	<u>\$ 600,298</u>	<u>\$ 549,827</u>

LONG-TERM DEBT

At June 30, 2004, the Centerville Municipal Waterworks had \$1,020,461 in bonds and other long-term debt, compared to \$1,126,087 in 2003, as shown below.

	Outstanding Debt at Year End	
	June 30	
	2004	2003
Water Revenue Refinancing Bonds	\$ 795,000	\$ 895,000
Rathbun Regional Water Association	217,000	217,000
Iowa Trust and Savings Bank	8,461	14,087
Total	<u>\$ 1,020,461</u>	<u>\$ 1,126,087</u>

No additional debt was issued during the year ended June 30, 2004. The decrease in the total debt balance was due to regular scheduled payments.

ECONOMIC FACTORS AND FUTURE BUDGET IMPLICATIONS

While the Centerville Municipal Waterworks continued to improve its financial position during the current fiscal year, regulatory requirements and capital improvement necessities will create future major expenditures.

- New capital expenditures at the water plant will occur by October 2005 in order to comply with a Department of Natural Resources regulation. Due to the high cost of a lagoon (\$680,000), it was decided to install a filter press with a cost estimate of \$285,000. The spending of reserve funds on this project will begin in May or June of 2005, but an additional \$200,000 will probably be borrowed. The interest rate for the Waterworks, as a Municipality, is lower than for other businesses. The payback would be over a period of ten years.
- The Waterworks has applied for a State Grant of \$225,000 to put in 15 to 19 blocks of new water mains. The Waterworks will provide matching funds of \$125,000. Our share of the money for this project should be on hand by June 2005 with construction of the water mains to start at that time if the grant is awarded.
- The current 2004-2005 fiscal year has already seen a large outlay of funds for capital improvements. The replacement of a 12 inch water main, which had been causing numerous breaks and large water losses, cost \$85,000. The last break in this main caused a loss of 250,000 gallons of water in 25 minutes. Another \$22,000 was spent to replace an old 6 inch main that was causing problems in this same area. This street is scheduled to be paved next year so that was the reasoning behind getting it taken care of now.
- In order to finance the above mentioned expenses and so as not to deplete all of our reserves, a rate increase in March of 2005 may need to be considered by the Board.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Centerville Municipal Waterworks, PO Box 867, 112 N. 12th St., Centerville, IA 52544.

**CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE**

**Statement of Cash Receipts, Disbursements and
Changes in Cash Balances - Proprietary Funds
As of and for the Year Ended June 30, 2004**

		Water Utility
Operating receipts:		
Charges for service	\$	946,063
Miscellaneous		66,124
Total operating receipts		1,012,187
Operating disbursements:		
Business type activities		845,883
Total operating disbursements		845,883
Excess (deficiency) of operating receipts over (under) operating disbursements		166,304
Non-operating receipts (disbursements):		
Use of money and property		11,497
Proceeds from sale of property		200
Water revenue bond repayments		(100,000)
Loan principal repayments		(5,626)
Debt service interest expense		(25,721)
Net change in customers' deposits		3,817
Total non-operating receipts (disbursements)		(115,833)
Net change in cash balances		50,471
Balance, beginning of year		549,827
Balance, end of year	\$	600,298
Cash basis fund balance:		
Customers' deposits	\$	63,593
Reserved for debt service		495,673
Unreserved		41,032
Total cash basis fund balances	\$	600,298

See notes to financial statements.

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements include all funds of the Centerville Municipal Waterworks, a component unit of the City of Centerville. The Centerville Municipal Waterworks is legally separate from the City of Centerville, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Centerville Municipal Waterworks is governed by a five-member board appointed by the City Council. The Waterworks' operating budget is subject to approval of the City Council. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

B. Basis of Presentation

The accounts of the Waterworks 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 fund balances. The various proprietary funds are classified as either major or nonmajor funds. Major funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor funds.

The Waterworks reports all of its activities relating to the operation and maintenance of the City's water and sewer systems in a single major proprietary fund.

C. Measurement Focus and Basis of Accounting

The Centerville Municipal Waterworks Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

(continued)

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Notes to Financial Statements (Continued)
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets and Net Assets

The following accounting policies are followed in preparing the Cash Basis Fund Balance reconciliation.

Cash Equivalents – Management considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Reserved Fund Balances – Funds set aside for repayment of customers' deposits and payment of debt service are classified as reserved.

E. Investments

Investments are stated at cost, which approximates market.

Note 2 – Cash and Investments

The Waterworks' deposits in banks at June 30, 2004 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 Waterworks 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 Commission; 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.

As of June 30, 2004, the Waterworks holds no investments requiring disclosure pursuant to the Governmental Accounting Standards Board Statement No. 3.

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Notes to Financial Statements (Continued)
June 30, 2004

Note 3 – Employee Benefits

Waterworks' employees accumulate earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The General Manager may be paid upon termination, retirement or death for fifty percent of his earned and unused sick leave benefits. These accumulations are not recognized as expenditures by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2004 are as follows:

<u>Type of Benefit</u>	<u>Amount at June 30, 2004</u>
Vacation	\$ <u>17,676</u>

The liability has been computed based on rates of pay as of June 30, 2004.

Note 4 – Revenue Notes

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

<u>Year Ending June 30,</u>	<u>Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 105,000	22,845
2006	105,000	20,535
2007	110,000	18,225
2008	110,000	15,365
2009	115,000	12,075
2010	125,000	8,500
2011	<u>125,000</u>	<u>4,375</u>
Totals	\$ <u>795,000</u>	<u>101,920</u>

The resolutions providing for the issuance of the revenue notes include the following provisions:

- A. The notes are to be redeemed from the future earnings of the Water Utility Fund and the note holders hold a lien on the future earnings of the Water Utility Fund.
- B. Sufficient monthly cash transfers shall be made to the Water Utility Operation and Maintenance Fund to meet the current expenses of the month plus an amount equal to one-twelfth of the expenses payable on an annual basis.

(continued)

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Notes to Financial Statements (Continued)
June 30, 2004

Note 4 – Revenue Notes (Continued)

- C. Sufficient monthly cash transfers shall be made to the Water Revenue Note and Interest Sinking Fund for the purpose of making the note principal and interest payments when due.

This account can only be used for the retirement of note principal and interest.

- D. A Debt Service Reserve Fund shall be maintained for the purpose of paying principal and interest on the notes when insufficient funds are available in the Sinking Fund. The balance in this restricted account is required to be \$99,000.

- E. Additional monthly transfers of \$500 shall be made to the Water Revenue Improvement Fund until the balance in the fund equals \$100,000. This account is restricted for the purpose of paying extraordinary maintenance expenses, repairs and capital improvements to the water treatment facility or for principal and interest on the notes when there are insufficient funds in the Sinking and Reserve Funds.

Note 5 – Notes Payable

The Waterworks is indebted to Iowa Trust and Savings Bank in the amount of \$8,462 as of June 30, 2004. The note is due in monthly installments of \$516.85 including interest at 5.00 percent per annum. The note is secured by equipment. The note matures in November 2005.

Note 6 – Rathbun Regional Water Loan

As part of the water purchase contract described in Note 7, Rathbun Regional Water Association agreed to loan the Centerville Municipal Waterworks \$217,000. The loan will be forgivable provided that Centerville Municipal Waterworks meets the minimum water purchase quantities for the first 10 years of the water purchase contract.

Note 7 – Water Purchase Contract

Centerville Municipal Waterworks agreed to a water purchase contract with Rathbun Regional Water Association in November of 2001. In the forty-year agreement, Centerville Municipal Waterworks agreed to purchase a minimum of three million gallons of water per month for the first five years. Following the initial five-year period, the Centerville Municipal Waterworks agreed to purchase a minimum of seven and one-half million gallons of water per month.

(continued)

**CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE**

**Notes to Financial Statements (Continued)
June 30, 2004**

Note 7 – Water Purchase Contract (Continued)

Based on the above agreement, the minimum water purchase payments for the next five years would be as follows:

<u>Year Ending June 30,</u>	<u>Minimum Water Purchase Payments</u>
2005	\$ 75,600
2006	75,600
2007	124,250
2008	159,000
2009	159,000

Note 8 – Pension and Retirement Benefits

The Centerville Municipal Waterworks 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 3.70% of their annual covered salary and the Centerville Municipal Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Centerville Municipal Waterworks' contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$19,734, \$18,750, and \$17,288, respectively, equal to the required contribution for each year.

Note 9 – Risk Management

The Centerville Municipal Waterworks 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 Centerville Municipal Waterworks 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.

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Notes to Financial Statements (Continued)
June 30, 2004

Note 10 – Accounting Change and Restatements

The Governmental Accounting Standards Board Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41 – Budgetary Comparison Schedule – Perspective Differences, were implemented for the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the Waterworks’ financial activities. The financial statements now include a financial statement that presents information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE**

**Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances - by Category
As of and for the Year Ended June 30, 2004**

	Water Utility	Water Revenue Bond Sinking
Receipts:		
Charges for services	\$ 946,063	-
Miscellaneous	66,124	-
Non-operating:		
Rent income	2,550	-
Interest on investments	472	828
Proceeds from sale of property	200	-
Customers' deposits	-	-
Total receipts	1,015,409	828
Disbursements:		
Business type activities	845,883	-
Debt service:		
Water revenue bond redemption	-	100,000
Loan principal repayments	5,626	-
Interest payments	573	25,148
Customers' refunded deposits	-	-
Total disbursements	852,082	125,148
Excess (deficiency) of receipts over (under) disbursements	163,327	(124,320)
Other financing sources (uses):		
Operating transfers in (out):		
Customers' deposits	1,266	-
Water Reserve Improvement	92,531	-
Water Reserve Improvement	(72,000)	-
Water Revenue Reserve	2,059	-
Water Revenue Bond Sinking	(136,768)	136,768
Total other financing sources (uses)	(112,912)	136,768
Net change in cash balances	50,415	12,448
Cash balances, beginning of year	(9,383)	63,215
Cash balances, end of year	\$ 41,032	75,663
Cash basis fund balances:		
Customers' deposits	\$ -	-
Reserved for debt service	-	75,663
Unreserved	41,032	-
Total cash basis fund balances	\$ 41,032	75,663

See accompanying independent auditors' report.

<u>Water Revenue Reserve</u>	<u>Water Reserve Improvement</u>	<u>Customer Deposits</u>	<u>Total</u>
-	-	-	946,063
-	-	-	66,124
-	-	-	2,550
3,213	3,447	987	8,947
-	-	-	200
-	-	20,681	20,681
<u>3,213</u>	<u>3,447</u>	<u>21,668</u>	<u>1,044,565</u>
-	-	-	845,883
-	-	-	100,000
-	-	-	5,626
-	-	-	25,721
-	-	16,864	16,864
-	-	16,864	994,094
<u>3,213</u>	<u>3,447</u>	<u>4,804</u>	<u>50,471</u>
-	-	(1,266)	-
-	(92,531)	-	-
-	72,000	-	-
(2,059)	-	-	-
-	-	-	-
<u>(2,059)</u>	<u>(20,531)</u>	<u>(1,266)</u>	<u>-</u>
1,154	(17,084)	3,538	50,471
184,000	251,940	60,055	549,827
<u>185,154</u>	<u>234,856</u>	<u>63,593</u>	<u>600,298</u>
-	-	63,593	63,593
185,154	234,856	-	495,673
-	-	-	41,032
<u>185,154</u>	<u>234,856</u>	<u>63,593</u>	<u>600,298</u>

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Schedule of Indebtedness
For the Year Ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Water Revenue Refinancing Bonds	March 1, 2003	2.00-3.50	\$ <u>990,000</u>
Rathbun Regional Water Association	November 1, 2001	none	\$ <u>217,000</u>
Iowa Trust and Savings Bank	November 14, 2002	5.00	\$ <u>17,231</u>

See accompanying independent auditors' report.

<u>Balance June 30, 2003</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance June 30, 2004</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>895,000</u>	<u>-</u>	<u>100,000</u>	<u>795,000</u>	<u>25,148</u>	<u>2,445</u>
<u>217,000</u>	<u>-</u>	<u>-</u>	<u>217,000</u>	<u>-</u>	<u>-</u>
<u>14,087</u>	<u>-</u>	<u>5,626</u>	<u>8,461</u>	<u>573</u>	<u>8</u>

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Bond Maturities
June 30, 2004

<u>Water Revenue Bonds</u>		
<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Issued March 1, 2003</u>	
	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2005	2.20	105,000
2006	2.20	105,000
2007	2.60	110,000
2008	3.00	110,000
2009	3.10	115,000
2010	3.30	125,000
2011	3.50	<u>125,000</u>
Totals	\$	<u>795,000</u>

See accompanying independent auditors' report.



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Independent Auditors' Report on Compliance
and on Internal Control Over Financial Reporting
Performed in Accordance with Government Auditing Standards

To the Board of Waterworks Trustees
Centerville Municipal Waterworks
Centerville, Iowa

We have audited the financial statements of the Centerville Municipal Waterworks as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Centerville Municipal Waterworks. Since our audit is 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Centerville Municipal Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Centerville Municipal Waterworks' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is described in Part II of the Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we believe is a material weakness. Prior years reportable conditions have been resolved except for the item described in Part II of the Schedule of Findings.

This report, a public record by law is intended solely for the information and use of the officials, employees and citizens of the Waterworks and other parties to whom the Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Theobald, Donohue & Thompson, P.C.

Centerville, Iowa
November 5, 2004

CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE

Schedule of Findings
For the Year Ended June 30, 2004

I. Summary of auditors' results:

- A. The auditors' report expresses an unqualified opinion on the financial statements, which were prepared on the basis of cash receipts, and cash disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- B. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- C. The audit did not disclose any noncompliance that is material to the financial statements.
- D. The audit disclosed no audit findings that the auditor is required to report.

II. Findings related to the financial statements:

Reportable Conditions:

Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible.

Recommendation – We realize that with a limited number of employees, segregation of duties is difficult. However, we recommend that the Commission review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We will work to maintain the best possible control with the personnel available.

Conclusion – Response accepted.

III. Other findings related to required statutory reporting:

- 04-III-1 Official Depositories – A resolution naming official depositories has been adopted by the Centerville Waterworks Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 04-III-2 Questionable Disbursements – We noted no disbursements that we believe may constitute an unlawful disbursement from public funds as defined in the Attorney General's opinion dated April 25, 1979.
- 04-III-3 Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.

(continued)

**CENTERVILLE MUNICIPAL WATERWORKS
A COMPONENT UNIT OF THE CITY OF CENTERVILLE**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2004**

III. Other findings related to required statutory reporting (continued):

04-III-4 Certified Budget – Disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted in the Water function prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

04-III-5 Bond Coverage – Surety bond coverage of the Waterworks' 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.

04-III-6 Business Transactions – Business transactions between the Waterworks and Waterworks' officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Richard Bratz, Trustee, Owner of Bratz Texaco	Gas, tires and repairs	\$ <u>1,128</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Bratz Texaco do not appear to represent a conflict of interest since total transactions with this individual was less than \$1,500 during the fiscal year.

04-III-7 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks' investment policy were noted.

04-III-8 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

04-III-9 Revenue Notes – The Centerville Municipal Waterworks did not comply with the Water Revenue Note resolution that requires deposits in the general account sufficient to meet current expenses plus an amount equal to 1/12 of expenses payable on an annual basis.

Recommendation – The Centerville Municipal Waterworks should make sure the required amounts are maintained in all accounts in order to comply with the Water Revenue Notes.

Response – We will monitor these accounts and maintain the required balances.

Conclusion – Response accepted.