

**KEOKUK MUNICIPAL WATER WORKS**

**INDEPENDENT AUDITOR'S REPORT**  
**BASIC FINANCIAL STATEMENTS AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2004**

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# KEOKUK MUNICIPAL WATER WORKS

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Johnstone	Trustee	November, 2005
Bruce Brandt	Trustee	November, 2007
Jeff Jeffers	Trustee	November, 2008
John Beaird	Trustee	November, 2008
Mike Hausch	Trustee	November, 2005
Bill C. Cole	Manager	
Shari Dunagan	Office Manager	

**KEOKUK MUNICIPAL WATER WORKS**

# JOHN A. RUSSELL, CPA PC

## *Certified Public Accountant*

1013 Concert Street  
Keokuk, IA 52632

### Independent Auditor's Report

Phone: 319-524-2695  
FAX: 319-524-8557

To the Board of Trustees  
Keokuk Municipal Water Works  
Keokuk, Iowa

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Keokuk Municipal Water Works, Keokuk, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of Water Works' management. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Keokuk Municipal Water Works as of June 30, 2004 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 6, during the year ended June 30, 2004, Keokuk Municipal Water Works 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2004 on our consideration of the Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That 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 and budgetary comparison information on pages 7 through 11 and 25 through 26 are not required parts of the basic financial statements, but are 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 referred to above taken as a whole. Other supplementary information included in Schedules I through 4 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 audits of the financial statements referred to above and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

*John A. Russell CPA PC*

October 29, 2004

**KEOKUK MUNICIPAL WATER WORKS**

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

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

### **2004 FINANCIAL HIGHLIGHTS**

- The Keokuk Municipal Waterworks; operating revenues increased 7.7%, or \$ 314,632. from fiscal 2003 to fiscal 2004.
- The Keokuk Municipal Waterworks' operating expenses were 4.4 %, or \$ 141,127. more in fiscal 2004 than in fiscal 2003.
- The Keokuk Municipal Waterworks' net assets increased 2.9%, or \$ 466,450.00 from June 30, 2003 to June 30, 2004

### **USING THIS ANNUAL REPORT**

The Keokuk Municipal Waterworks is governed by a Board of Trustees, appointed by the Mayor and approved by the City Council. The Keokuk Municipal Waterworks is organized as an Enterprise Fund. This discussion and analysis are intended to serve as an introduction to the Keokuk 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 Keokuk Municipal Waterworks' financial activities.

The Statement of Net Assets presents information on the Keokuk Municipal Waterworks; assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Keokuk Municipal Waterworks is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Keokuk Municipal Waterworks' operating revenues and expenses, non-operating revenues and expenses and whether the Keokuk Municipal Waterworks financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Keokuk Municipal Waterworks' cash and cash equivalents during the year. This information can assist the user of the report in determining how the Waterworks financed its activities and how it met its cash requirements.

**FINANCIAL ANALYSIS OF THE KEOKUK MUNICIPAL WATERWORKS**  
**Statement Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of the waterworks financial position. The Waterworks' net assets for fiscal 2004 totaled \$16,299,394. This compares to \$ 15,832,944. for fiscal 2003. A summary of the Waterworks' net assets is presented below.

<b>NET ASSETS</b>		
	2004	2003
	Actual	Actual
Assets		
Unrestricted Cash	1,345,758.	879,589.
Restricted Cash	11,021,724.	4,041,857.
Property, Plant and Equipment	23,565,919.	23,937,239.
Unamortized Expense	283,539.	248,105.
 Total	 36,216,940.	 29,106,790.
Liabilities		
Unrestricted Current	981,796.	891,455.
Restricted	450,750.	427,391.
Noncurrent	18,485,000.	11,955,000.
 Total Liabilities	 19,917,546.	 13,273,846.
 Total Net Assets	 16,299,394.	 15,832,944.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Operating revenues are generated from the distribution and purifying of water. This accounts for 94% of our income. Other revenues are from interest and miscellaneous charges. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2004 is presented below:

## CHANGES IN NET ASSETS

	2004 Actual	2003 Actual
Operating Revenues		
Water Sales	4,318,955.	4,012,425.
Miscellaneous Charges	54,663.	54,184.
Service Charge & Penalties	44,366.	36,743.
 Total Operating Revenues	 4,417,984.	 4,103,352.
Operating Expense		
Plant	1,239,633.	1,130,858.
Distribution	253,923.	226,447.
Meter Shop	104,278.	127,122.
Office	812,182.	783,255.
Depreciation	834,959.	836,166.
Amortization	94,766.	94,766.
 Total Operating Expense	 3,339,741.	 3,198,614.
 Operating Income	 1,078,243.	 904,738.
Non Operating Revenues (Expenses)		
Interest on Investments	153,444.	130,666.
Gain on Disposition of Equipment	36,025.	
Capital Loan Note Int. Expense	(801,262.)	(781,090.)
Net Non-Operating Revenues (Exp)	(611,793.)	(650,424.)
 Increase in Net Assets	 466,450.	 254,314.
 Net Assets Beginning of Year	 15,832,944.	 15,578,630.
 Net Assets End of Year	 16,299,394.	 15,832,944.

The Statement of Revenues, Expense and changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal 2004, operating revenues increased by \$314,632. Operating expenses increased by \$141,127.

## STATEMENT OF CASH FLOWS

Cash flows are directly related to our pumpage, 94% of our income comes from water sales. Operating expenses account for 81% of our total expenses. The budget for FYE 6-30-04 was \$4,922,833. The budget was exceeded by \$147,784. This was due to capitol expenditures at the plant and the refinancing of the 1995 bond issue. Total expenditures for the year totaled \$5,070,617. This is an 8.3% increase over 2003.

## CAPITAL ASSETS

At June 30, 2004 the Keokuk Municipal Waterworks had \$34,026,618 in capital assets. A summary of projects follows.

### **Distribution System:**

- Purchase of Truck
- Replacement of water main on Boulevard Road
- Purchase of Hydrants and Meters

### **Water Treatment Plant:**

- Upgrading of control system
- Major electrical rewiring project
- Upgrading of filter system
- Roof replacement

Capitol expenditures totaled \$479,614., an increase of 78% over 2003.

## LONG-TERM DEBT

At June 30, 2004, the Waterworks had \$ 11,955,000 in debt outstanding, a decrease of \$ 450,000 from 2003. This debt is from 1995 and 1996 bond issues. See page 21 and 22 of the annual audit.

On April 1, 2004 the Keokuk Municipal Waterworks issued \$7,000,000 in Water Revenue Refunding Capital Loan Notes. This will be used on April 1, 2006, which is the call date for the 1995 issue. This will reduce total debt service by approximately \$1,122,775. See page 22 of the audit.

## ECONOMIC FACTORS

The Keokuk Municipal Waterworks continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the country and local area

continues to be a concern for waterworks officials. Some of the realities that may potentially become challenges for the waterworks to meet are:

- Facilities at the waterworks require constant maintenance and upkeep
- Water regulations continue to change, in order to meet these new standards the waterworks must constantly upgrade and change, which could be a financial challenge.
- Due to the age of the distribution system, the Keokuk Municipal Waterworks repair and replacement of mains is on-going.
- Closing of businesses and declining population directly affect the income of the Keokuk Municipal Waterworks.

The waterworks anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the waterworks ability to react to unknown issues.

### **CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the waterworks finances and to show the waterworks additional financial information, contact the Keokuk Municipal Waterworks, 20 N. 4<sup>th</sup> Street, Keokuk, Iowa.

**KEOKUK MUNICIPAL WATER WORKS**

## **BASIC FINANCIAL STATEMENTS**

KEOKUK MUNICIPAL WATER WORKS  
Statement of Net Assets  
June 30, 2004

**Assets**

Current unrestricted assets:			
Cash and cash equivalents		\$ 659,499	
Certificates of deposit		260,000	
Interest receivable on investments		33,227	
Accounts receivable		340,721	
Prepaid expenses		<u>52,311</u>	
Total current unrestricted assets			\$ 1,345,758
Restricted assets:			
Sewer, garbage & landfill:			
Cash	\$ 123,841		
Accounts receivable	<u>163,087</u>	286,928	
Consumers water meter deposits:			
Cash	<u>109,157</u>	109,157	
Consumers sewer meter deposits:			
Cash	9,665		
Certificates of deposit	<u>45,000</u>	54,665	
Sinking fund:			
Cash	<u>306,920</u>	306,920	
Reserve fund:			
Guaranteed investment contracts	<u>1,218,470</u>	1,218,470	
Improvement fund:			
Certificate of deposit	<u>250,000</u>	250,000	
General regulatory and system improvement:			
Cash and cash equivalents	294,330		
Certificates of deposit	<u>1,580,000</u>	1,874,330	
Bond refunding trust account	<u>6,921,254</u>	<u>6,921,254</u>	
Total restricted assets			11,021,724
Property, plant and equipment:			
Land		252,601	
Buildings	234,247		
Less: accumulated depreciation	<u>(173,598)</u>	60,649	
Plant and tanks	27,280,026		
Less: accumulated depreciation	<u>(7,568,294)</u>	19,711,732	
Distribution system, meters and hydrants	5,229,751		
Less: accumulated depreciation	<u>(1,795,392)</u>	3,434,359	
Machinery and equipment	1,029,993		
Less: accumulated depreciation	<u>(923,415)</u>	106,578	
Total property, plant and equipment			23,565,919
Other assets:			
Unamortized sludge disposal expense (Note 1)		75,000	
Unamortized bond expense (Note 1)		<u>208,539</u>	<u>283,539</u>
<b>Total assets</b>			<b>\$ 36,216,940</b>
See notes to financial statements.			

**Liabilities and net assets**

## Current liabilities (payable from unrestricted assets):

Accounts payable	\$	67,408	
State sales tax payable		4,097	
Accrued compensated absences (Note 1)		193,721	
Accrued interest on water revenue capital loan notes		246,570	
Current portion of long-term debt		470,000	
		<u>          </u>	
Total unrestricted current liabilities	\$		981,796

## Liabilities (payable from restricted assets):

Due to city - sewer & garbage charges		227,297	
Due to GRRW - landfill charges		59,631	
Consumer water meter deposits		109,157	
Consumer sewer meter deposits		54,665	
		<u>          </u>	
Total Restricted Liabilities			450,750

## Noncurrent liabilities:

Water revenue capital loan notes (Note 4)		18,955,000	
Less: Current portion of long-term debt		<u>(470,000)</u>	<u>18,485,000</u>

**Total liabilities**19,917,546**Net assets**

Invested in capital assets, net of related debt		11,532,173	
Restricted for water revenue capital loan notes (Note 4):			
Sinking fund		306,920	
Reserve fund		1,218,470	
Improvement fund		250,000	
Unrestricted		<u>2,991,831</u>	

**Total net assets**\$ 16,299,394

See notes to financial statements.

KEOKUK MUNICIPAL WATER WORKS  
Statement of Revenues, Expenses and  
Changes in Net Assets  
Year Ended June 30, 2004

Operating revenues:	
Metered sales	\$ 4,309,652
Flat rate sales	9,303
Miscellaneous charges	54,663
Service charges and penalties	44,366
Total operating revenue	<u>4,417,984</u>
Operating expenses:	
Operating expenses (Schedule 1)	2,410,016
Depreciation	834,959
Amortization	94,766
Total operating expenses	<u>3,339,741</u>
Operating income	<u>1,078,243</u>
Non-operating revenues (expenses):	
Interest on investments	153,444
Gain on disposition of equipment	36,025
Capital loan note interest expense	(801,262)
Net non-operating revenues (expenses)	<u>(611,793)</u>
Change in net assets	466,450
Net assets, June 30, 2003	<u>15,832,944</u>
Net assets, June 30, 2004	<u>\$ 16,299,394</u>

See notes to financial statements.

KEOKUK MUNICIPAL WATER WORKS  
Statement of Cash Flows  
Year Ended June 30, 2004

Cash flows from operating activities:	
Cash received form customers-water	\$ 4,347,554
Cash received from customers for deposits & others	1,441,806
Cash received from other operating revenues	54,663
Cash payments to supplies for goods and services	(1,456,203)
Cash payments to employees for services	(942,459)
Cash payments to city and GRRWA	(1,419,939)
Net cash provided by operating activities	<u>2,025,422</u>
Cash flows from capital and related financing activities:	
Payments on revenue bonds	(1,214,200)
Purchase of property and equipment	(479,614)
Proceeds from sale of assets	52,000
Proceeds from crossover refunding bonds	7,018,458
Payment of bond fees	(130,200)
Net cash used by capital and related financing activities	<u>5,246,444</u>
Cash flows from investing activities:	
Proceeds from maturities of certificates of deposit	1,862,000
Purchase of certificates of deposit	(2,090,000)
Interest received	153,498
Deposit to bond refunding trust account	(6,921,254)
Net cash used by investing activities	<u>(6,995,756)</u>
Net increase in cash and cash equivalents	276,110
Cash and cash equivalents, beginning of year	<u>1,227,302</u>
Cash and cash equivalents, end of year (includes restricted funds of \$843,913.)	<u>\$ 1,503,412</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	<u>\$ 1,078,243</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	929,725
Changes in assets and liabilities:	
(Increase) in accounts receivable	(17,259)
(Increase) in prepaid expense	(3,467)
(Decrease) in accounts payable	(1,457)
Increase in accrued expense	16,278
Increase in other liabilities	23,359
Total adjustments	<u>947,179</u>
Net cash provided by operating activities	<u>\$ 2,025,422</u>

See notes to financial statements.

# KEOKUK MUNICIPAL WATER WORKS

## Notes to Financial Statements

June 30, 2004

### **Note 1. Summary of Significant Accounting Policies**

The Water Works is governed by a Board of Trustees appointed by the Mayor and approved by the City Council. The Board of Trustees has the responsibility for designated management and is accountable for fiscal matters relating to the Keokuk Municipal Water Works.

The Water Works' financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

#### **A. Reporting Entity**

For financial reporting purposes, Keokuk Municipal Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Works 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 Water Works. The Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

#### **B. Basis of Presentation**

The accounts of Keokuk Municipal Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

#### **C. Measurement Focus and Basis of Accounting**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Water Works applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Works' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents- The Water Works 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 date of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2004 include certificates of deposit and guaranteed investment contracts in the amount of \$3,353,470.

Restricted Investments- Funds set aside for sewer, garbage and landfill fees collected for others, water and sewer meter deposits and bond sinking, bond improvement and bond reserve accounts.

Accounts Receivable- Accounts receivable represent amounts billed for water, sewer, garbage, landfill fees and other services uncollected at June 30, 2004. Because of the organization's policies in collecting deposits from its customers and its ability to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded.

Inventories- Inventories which consist of supplies and repair materials are recognized as costs at the time they are purchased. Inventory items are negligible.

Property, Plant and Equipment- Property, plant and equipment are recorded at historical cost. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

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

Buildings and improvements	10-30 yrs
Water plant	50 yrs
Distribution system	15-80 yrs
Machinery and equipment	5-20 yrs

Amortization of Sludge Disposal Expense- On January 1, 1991, the Water Works entered into an agreement with the City of Keokuk to treat certain sludge waste in the city sewer system. The agreement is for a fifteen year period ending December 31, 2006 and required a prepaid charge in the amount of \$750,000 which is being amortized ratably over a 15 year period.

Amortization of Water Revenue Capital Loan Note- During the year ended June 30, 1996, the Water Works incurred costs of \$460,848, in connection with two Capital Loan note issuances. These costs are being ratably amortized on a monthly basis over the life of the Capital Loan notes until the first call date, April 1, 2007. The expense for the year ending June 30, 2004 was \$44,766.

Compensated Absences- Water Works employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. The Water Works liability for accumulated vacation and sick leave has been computed based on rates of pay in effect at June 30, 2004.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted.

**Note 2. Cash and Investments**

The Water Works' 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 Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Works Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies, certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Water Works had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement in No. 3.

**Note 3. Pension and Retirement Benefits**

The Water Works contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Water Works is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Water Works contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$40,299, \$41,239 and \$45,244 respectively, equal to the required contributions for each year.

**Note 4. Water Revenue Capital Loan Notes Payable**

On October 13, 1995, the Keokuk Municipal Water Works adopted a Resolution authorizing the issuance of \$9,045,000 Water Revenue Capital Loan Note Series 1995. These notes mature April 1, 2005 through 2020 with interest rates from 5.6% to 6.5%. Notes due on or after April 1, 2007 may be called for redemption on April 1, 2006 at par plus accrued interest, in whole or in part on any date and if in part, in order of maturity.

On April 10, 1996, the Keokuk Municipal Water Works adopted a Resolution authorizing the issuance of \$5,955,000 Water Revenue Capital Loan Note Series 1996. These notes mature April 1, 2005 through 2020 with interest rates from 5.2% to 6.5%. Notes due on or after April 1, 2007 may be called for redemption on April 1, 2006 in whole or in part, on any date in order of maturity at par plus accrued interest to the redemption date.

Annual debt service requirements to maturity for Water Revenue Capital Loan Notes are as follows:

Year Ending June 30,	<u>\$9,045,000 Water Revenue Capital Loan Note Ser 1995</u>		<u>\$5,955,000 Water Revenue Capital Loan Note Ser 1996</u>		<u>Total</u>	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	280,000	452,900	190,000	287,270	470,000	740,170
2006	300,000	437,220	200,000	277,390	500,000	714,610
2007	315,000	420,120	210,000	266,790	525,000	686,910
2008	330,000	401,850	220,000	255,450	550,000	657,300
2009	350,000	382,390	230,000	243,350	580,000	625,730
2010-2014	2,105,000	1,562,631	1,375,000	1,001,400	3,480,000	2,564,031
2015-2019	2,860,000	804,700	1,855,000	521,950	4,715,000	1,326,650
2020	690,000	44,850	445,000	28,925	1,135,000	73,775
	<u>\$7,230,000</u>	<u>\$4,506,661</u>	<u>\$4,725,000</u>	<u>\$2,882,525</u>	<u>\$11,955,000</u>	<u>\$7,389,176</u>

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

A. Rate Covenant

The Water Works covenants to continue in effect rates for services rendered to be sufficient to produce Gross Revenues adequate to pay expenses of operation and maintenance and to maintain a balance of Net Revenues equal to at least 125% of the principal and interest on the notes as they become due.

B. Sinking Fund

Sufficient monthly transfers equal to 1/6 of the interest coming due and 1/12 of the principal coming due, shall be deposited to the Sinking Fund and shall be used solely for the purpose paying principal and interest.

C. Reserve Fund

The Reserve Fund requirement is an amount equal to the lesser of (a) the maximum principal and interest coming due on the notes in any fiscal year, or (b) 10% of the stated principal of the notes. Amounts on deposit in the Reserve Fund shall be used solely for the purpose of paying principal and interest on the notes. The Reserve Fund is to be valued on April 1<sup>st</sup> of each year and whenever the amount on deposit is less than the Reserve Fund requirement, the Water Works is required to make monthly deposits in an amount equal to 25% of the amount required to be deposited in the Sinking Fund until the Reserve Fund has been restored.

D. Improvement Fund

The Improvement Fund requirement is \$250,000. Money on deposit in the Improvement Fund shall be used for the purpose of paying principal and interest on the notes when there are insufficient balances in the Sinking Fund and Reserve Fund. Funds may also be used to pay the costs of extraordinary maintenance expenses or repairs, renewals and replacement. Whenever it shall become necessary to so use money on deposit in the Improvement Fund, the Water Works shall deposit \$21,000 per month until the amount on deposit is restored to \$250,000.

**Series 2004A Water Revenue Refunding Capital Loan Notes**

On April 1, 2004, the Keokuk Municipal Water Works issued \$7,000,000 in Water Revenue Refunding Capital Loan Notes. The Water Works entered into an escrow agreement with Wells Fargo Bank, N.A. and deposited the proceeds from the refunding notes. The proceeds will be used to advance refund \$6,650,000 of 1995 Water Revenue Capital Loan Notes on the call date of April 1, 2006. The remaining funds in the escrow account will be used temporarily to meet the debt service requirements of the refunding bonds until the crossover date of April 1, 2006, at which time the escrow account will be used exclusively for the payment of principal on the 1995 Water Revenue Capital Loan Notes. As required, the Water Works will report the liability for both the 1995 Water Revenue Capital Loan Notes and the Water Revenue Refunding Notes until the crossover date. The amount available in the refunding notes trust escrow account at June 30, 2004 was \$6,921.254, consisting of non-callable direct obligations of the Department of Treasury.

The Water Works, in effect, reduced its total debt service payments by approximately \$1,122.775 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$833,564.

**Note 5. Risk Management**

The Keokuk Municipal Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations.

**Note 6. Accounting Change**

For the year ended June 30, 2004, the Keokuk Municipal Water Works implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government; 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.

Implementation of these statements had no effect on the beginning balances of the Water Works.

**REQUIRED SUPPLEMENTARY INFORMATION**

KEOKUK MUNICIPAL WATER WORKS  
Statement of Revenues, Expenses and  
Changes in Net Assets  
Actual and Budgeted  
Year Ended June 30, 2004

	Actual	Adjustment to Budgetary Basis
Operating revenues:		
Metered sales	\$ 4,309,652	\$ -
Flat rate sales	9,303	-
Miscellaneous charges	54,663	-
Service charges and penalties	44,366	-
Total operating revenue	4,417,984	-
Operating expenses:		
Operating expenses (Schedule 1)	2,410,016	-
Depreciation	834,959	-
Amortization	94,766	-
Total operating expenses	3,339,741	-
Operating income	1,078,243	-
Non-operating revenues (expenses):		
Interest on investments	153,444	-
Gain on disposition of equipment	36,025	-
Property, plant, and equipment		(479,614)
Capital loan note principal	-	(450,000)
Capital loan note interest expense	(801,262)	-
Net non-operating revenues (expenses)	(611,793)	(929,614)
Change in net assets	466,450	(929,614)
Net assets, June 30, 2003	15,832,944	-
Net assets, June 30, 2004	\$ 16,299,394	\$ (929,614)

Note: The Water Works budgets cash outlay debt principal payments and property plant and equipment purchases which are treated differently in accordance with GAAP.

See accompanying independent auditor's report.

Actual on Budgetary Basis	Original Budget	Variance- Favorable (Unfavorable)
\$ 4,309,652	\$ 4,238,053	\$ 71,599
9,303	4,500	4,803
54,663	65,000	(10,337)
44,366	38,000	6,366
<u>4,417,984</u>	<u>4,345,553</u>	<u>72,431</u>
2,410,016	2,650,823	240,807
834,959	810,000	(24,959)
94,766	50,000	(44,766)
<u>3,339,741</u>	<u>3,510,823</u>	<u>171,082</u>
1,078,243	834,730	243,513
153,444	140,000	13,444
36,025	-	36,025
(479,614)	(300,000)	(179,614)
(450,000)	(450,000)	-
(801,262)	(662,010)	(139,252)
<u>(1,541,407)</u>	<u>(1,272,010)</u>	<u>(269,397)</u>
(463,164)	(437,280)	(25,884)
<u>15,832,944</u>		
<u>\$ 15,369,780</u>		

See accompanying independent auditor's report.

**OTHER SUPPLEMENTARY INFORMATION**

Schedule 1

KEOKUK MUNICIPAL WATER WORKS  
 Schedule of Operating Expenses - Budgeted and Actual  
 For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Actual Over (Under) <u>Budget</u>
Plant Operation and Maintenance:			
Supervision labor	\$ 51,500	\$ 51,956	\$ 456
Maintenance labor	85,933	88,425	2,492
Operation labor	152,400	148,716	(3,684)
Laboratory labor	32,000	34,277	2,277
Flood control labor	2,000	-	(2,000)
Purification supplies	577,970	499,818	(78,152)
Utilities	255,000	259,225	4,225
Plant maintenance	246,000	104,662	(141,338)
Supplies	35,000	30,970	(4,030)
Sludge disposal	2,000	3,365	1,365
Education and travel	6,000	2,952	(3,048)
Intake	5,000	10,313	5,313
Generator expense	7,000	4,954	(2,046)
	<u>1,457,803</u>	<u>1,239,633</u>	<u>(218,170)</u>
Distribution Maintenance:			
Supervision labor	32,700	24,744	(7,956)
Maintenance labor	62,500	34,349	(28,151)
Main leaks	25,000	87,293	62,293
Valves	18,000	3,368	(14,632)
Maintenance	13,000	18,822	5,822
Building maintenance	1,000	4,008	3,008
Supplies	40,000	49,720	9,720
Hydrants	5,000	25,391	20,391
Storage	8,000	3,740	(4,260)
Education and travel	1,500	2,488	988
	<u>206,700</u>	<u>253,923</u>	<u>47,223</u>
Meter Maintenance:			
Supervision labor	14,100	24,766	10,666
Maintenance labor	56,200	57,872	1,672
Meter reading labor	3,000	2,719	(281)
Meter parts	8,000	6,761	(1,239)
Shop supplies	20,000	11,685	(8,315)
Education and travel	1,500	475	(1,025)
	<u>102,800</u>	<u>104,278</u>	<u>1,478</u>

See accompanying independent auditor's report.

KEOKUK MUNICIPAL WATER WORKS  
 Schedule of Operating Expenses - Budgeted and Actual  
 For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Actual Over (Under) <u>Budget</u>
Administration:			
Management salaries	102,060	99,082	(2,978)
Office salaries	129,780	129,494	(286)
Board fees	1,500	1,500	-
Postage and shipping	24,000	22,487	(1,513)
Data processing expense	10,000	2,327	(7,673)
Office expense	60,000	27,096	(32,904)
Social Security and IPERS	96,905	92,830	(4,075)
Vehicle maintenance	10,000	8,304	(1,696)
Engineering and legal	70,000	72,766	2,766
Employee benefits	198,975	153,229	(45,746)
Insurance	65,000	66,508	1,508
Education and travel	5,000	3,604	(1,396)
Office building maintenance	10,000	9,577	(423)
To city in lieu of taxes	100,000	100,000	-
Increase in compensated absences	-	16,278	16,278
Bond fees	300	7,100	6,800
	<u>883,520</u>	<u>812,182</u>	<u>(71,338)</u>
<b>Total operating expenses</b>	<u>\$ 2,650,823</u>	<u>\$ 2,410,016</u>	<u>\$ (240,807)</u>

See accompanying independent auditor's report.

Schedule 2

KEOKUK MUNICIPAL WATER WORKS  
Statement of Changes in Assets Restricted  
for Landfill, Sewer, and Garbage Charges  
For the Year Ended June 30, 2004

	Landfill Charges	Sewer Charges	Garbage Charges	Total
Restricted asset balance, July 1, 2003	\$ 56,740	\$ 115,851	\$ 101,511	\$ 274,102
Revenues:				
Landfill service charges	221,983	-	-	221,983
Sewer service charges	-	727,321	-	727,321
Garbage service charges	-	-	491,324	491,324
Less: billing adjustments	(1,096)	(4,663)	(2,104)	(7,863)
	<u>277,627</u>	<u>838,509</u>	<u>590,731</u>	<u>1,706,867</u>
Expenditures:				
To the city of Keokuk & GRRW	(217,996)	(719,967)	(481,976)	(1,419,939)
Restricted asset balance, June 30, 2004	<u>\$ 59,631</u>	<u>\$ 118,542</u>	<u>\$ 108,755</u>	<u>\$ 286,928</u>
Restricted asset balance is composed of the following:				
Cash	\$ 19,543	\$ 60,894	\$ 43,404	\$ 123,841
Accounts receivable	40,088	57,648	65,351	163,087
	<u>\$ 59,631</u>	<u>\$ 118,542</u>	<u>\$ 108,755</u>	<u>\$ 286,928</u>

See accompanying independent auditor's report.

KEOKUK MUNICIPAL WATER WORKS  
Statement of Changes in Assets Restricted for  
Water Revenue Capital Loan Note Debt Service  
For the Year Ended June 30, 2004

	Water Revenue Note Sinking Fund	Water Revenue Note Improvement Fund	Water Revenue Note Reserve Fund	Total
Restricted asset balance, July 1, 2003	\$ 307,927	\$ 250,000	\$ 1,218,470	\$ 1,776,397
Revenues:				
Transfers from operations	1,213,193	-	-	1,213,193
	<u>1,521,120</u>	<u>250,000</u>	<u>1,218,470</u>	<u>2,989,590</u>
Expenditures:				
Note principal payments	450,000	-	-	450,000
Note interest payments and fees	764,200	-	-	764,200
	<u>1,214,200</u>	<u>-</u>	<u>-</u>	<u>1,214,200</u>
Restricted asset balance, June 30, 2004	<u>\$ 306,920</u>	<u>\$ 250,000</u>	<u>\$ 1,218,470</u>	<u>\$ 1,775,390</u>

See accompanying independent auditor's report.

KEOKUK MUNICIPAL WATER WORKS  
Scheduled Fixed Assets and Depreciation  
For the Year Ended June 30, 2004

	Assets			Balance June 30, 2004
	Balance June 30, 2003	Additions	Deductions	
Land	\$ 252,601	\$ -	\$ -	\$ 252,601
Building	234,247	-	-	234,247
Plant and tanks:				
Water treatment plant	24,310,790	284,595	-	24,595,385
Intake	193,712	-	-	193,712
Sludge disposal facility	892,538	-	-	892,538
Tank painting	1,415,616	-	-	1,415,616
Filter repair	75,259	107,516	-	182,775
Total plant & tanks	<u>26,887,915</u>	<u>392,111</u>	<u>-</u>	<u>27,280,026</u>
Distribution system, meters and hydrants:				
Mains	4,182,410	49,833	-	4,232,243
Meters	781,985	3,080	29,000	756,065
Hydrants	227,168	14,275	-	241,443
Total dist. system, meters & hydrants	<u>5,191,563</u>	<u>67,188</u>	<u>29,000</u>	<u>5,229,751</u>
Machinery and equipment:				
General equipment	46,196	-	-	46,196
Office equipment	220,594	-	-	220,594
Shop equipment	102,027	200	48,500	53,727
Store & plant equipment	557,430	470	-	557,900
Transportation equipment	144,336	19,645	12,405	151,576
Total machinery & equipment	<u>1,070,583</u>	<u>20,315</u>	<u>60,905</u>	<u>1,029,993</u>
<b>Grand total</b>	<u>\$ 33,636,909</u>	<u>\$ 479,614</u>	<u>\$ 89,905</u>	<u>\$ 34,026,618</u>

See accompanying independent auditor's report.

Allowance for Depreciation				
Balance June 30, 2003	Depreciation Taken	Eliminations	Balance June 30, 2004	Net Asset Value
\$ -	\$ -	\$ -	\$ -	\$ 252,601
164,337	9,261	-	173,598	60,649
6,085,758	564,487	-	6,650,245	17,945,140
114,901	3,874	-	118,775	74,937
399,769	17,851	-	417,620	474,918
247,369	70,810	-	318,179	1,097,437
58,350	5,125	-	63,475	119,300
6,906,147	662,147	-	7,568,294	19,711,732
1,147,643	52,691	-	1,200,334	3,031,909
475,881	42,985	20,300	498,566	257,499
92,331	4,161	-	96,492	144,951
1,715,855	99,837	20,300	1,795,392	3,434,359
45,389	391	-	45,780	416
200,753	9,435	-	210,188	10,406
93,560	815	41,225	53,150	577
459,868	38,856	-	498,724	59,176
113,761	14,217	12,405	115,573	36,003
913,331	63,714	53,630	923,415	106,578
\$ 9,699,670	\$ 834,959	\$ 73,930	\$ 10,460,699	\$ 23,565,919

See accompanying independent auditor's report.

**JOHN A. RUSSELL, CPA PC**  
*Certified Public Accountant*

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**Independent Auditor's Report on Compliance  
And on Internal Control over Financial Reporting**

To the Board of Trustees  
Keokuk Municipal Water Works  
Keokuk, Iowa

We have audited the financial statements of the Keokuk Municipal Water Works as of and for the year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. 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 Keokuk Municipal Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works' 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 Water Works. 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Keokuk Municipal Water Works' 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.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

We wish to thank the officials and employees of the Keokuk Municipal Water Works, Keokuk, Iowa, for their cooperation and courtesies extended to us during the course of our examination.

Sincerely,

*John G. Russell CPA PC*

October 29, 2004

KEOKUK MUNICIPAL WATER WORKS

Schedule of Findings

Year Ended June 30, 2004

**Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

No material weaknesses in the internal control over financial reporting were identified.

**Other Findings Related to Statutory Reporting:**

(1) Official Minutes- The Board of Trustees meets in regular monthly sessions, and in special session, when necessary to transact business of the utility. No transactions were found that we believe should have been approved in the Board minutes but were not.

(2) Certified Budget- Water Works' expenditures during the year ended June 30, 2004 exceeded amounts budgeted therefore.

Recommendation- The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response- The budget will be amended in the future, if applicable.

Conclusion- Response accepted.

(3) Official Depository Banks-The Water Works' official depository banks are:

	<u>Amount</u>
Keokuk Savings Bank & Trust Co., Keokuk, Iowa	3,500,000
State Central Savings Bank, Keokuk, Iowa	3,500,000
First Community Bank, Keokuk, Iowa	3,500,000

A resolution naming these banks as official depository banks has been adopted by the Board of Trustees. The maximum deposit amount, stated in the resolution, was not exceeded during the year ended June 30, 2004.

(4) Bond Coverage- Surety bond coverage of Water Works' officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

(5) Revenue Notes- The Water Works has compiled with the provisions of the revenue capital loan note resolution.

- (6) Travel Expense-No expenditures of Water Works' money for travel expenses of spouses of Water Works officials or employees were noted.
- (7) Business Transactions-No business transactions between the Water Works and Water Works' officials were noted.
- (8) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in a Attorney General's Opinion dated April 25, 1979.
- (9) Fixed Assets Records – A complete record of fixed assets is maintained; however, to facilitate the proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once a year and compared against the fixed asset records.
- (10) 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 Water Works' investment policy were noted.