

**CENTERVILLE  
MUNICIPAL WATERWORKS**

Independent Auditors' Reports  
Basic Financial Statement and Supplemental Information  
Schedule of Findings

June 30, 2006

# CENTERVILLE MUNICIPAL WATERWORKS

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CENTERVILLE MUNICIPAL WATERWORKS

Waterworks' Officials  
June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Bratz	Trustee	August, 2006
Rob Lind	Trustee	August, 2009
Dwight Riley	Trustee	August, 2008
Jerry Baker	Trustee	August, 2007
Linda Miller	Trustee	August, 2009
Bill Ursta	General Manager	
Kay Guffey	Office Supervisor	Indefinite
Nancy Kauzlarich	Clerk	Indefinite

## Independent Auditors' Report

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

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, as of and for the year ended June 30, 2006. This financial statement is the responsibility of the Centerville Municipal Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

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

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of the cash transactions of the Centerville Municipal Waterworks, as of and for the year ended June 30, 2006, and its indebtedness at June 30, 2006 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2006 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, contracts 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 7 is not a required part of the financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

*TD&T Financial Group, P.C.*

Centerville, Iowa  
November 27, 2006

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

The Centerville Municipal Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the Centerville Municipal Waterworks is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### **2006 FINANCIAL HIGHLIGHTS**

The highlights for the fiscal year July 1, 2005 to June 30, 2006 are as follows:

In July of 2006 the Water Board decided to close the Water Plant because of the high costs to meet the new DNR standards.

A lagoon was needed for the backwash water; this would have cost \$950,000. This was mandated by the DNR. All of this money would have needed to be borrowed.

Our Total Organic Carbons (TOC's) were higher than the DNR requirements and we were instructed to do a viability study to find a way to lower the TOC's to meet requirements. A viability study by an engineering firm would have cost approximately \$65,000.

To meet the TOC's requirement we would have to change to granular activated carbon on all filters at a cost of around \$1,000,000. We would have had to bond for this project.

We decided to close the plant (built in 1915/filters installed in 1923) in July 2006. We now purchase all of our water from Rathbun Regional Water Association at a bulk cost that averages \$1.50 per 1000 gallons.

In this fiscal year we received a \$250,000 grant which we matched with our savings to put in 19 blocks of new water mains. We have installed 87 blocks of new mains in the last 10 years and not borrowed any money for these projects.

We still maintain our distribution system, water towers, billing and collection, and customer service departments.

### **USING THIS ANNUAL REPORT**

The Centerville Municipal Waterworks 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 Centerville Municipal Waterworks' 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 this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. 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.

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 is intended to serve as an introduction to the Centerville Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Waterworks' financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets 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 Statement provide additional information essential to a full understanding of the data provided in the financial statement.
- The Supplementary Information provides detailed information on the Waterworks' reserved funds, and indebtedness.

## **FINANCIAL ANALYSIS OF THE WATERWORKS**

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

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

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.

A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2006 and 2005 are shown on the following page.

The Waterworks' net assets are available for the use in routine operations for the plant, distribution and administrative areas of the Waterworks and for the capital improvements to the plant and distribution areas. State and federal laws and regulations require the Centerville Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2006	2005
Operating receipts:		
Charges for service	\$ 1,074,018	\$ 1,007,351
Miscellaneous	171,919	75,261
Total operating receipts	<u>1,245,937</u>	<u>1,082,612</u>
Operating disbursements:		
Business type activities	<u>1,106,908</u>	<u>983,835</u>
Total operating disbursements	<u>1,106,908</u>	<u>983,835</u>
Excess of operating receipts over operating disbursements	<u>139,029</u>	<u>98,777</u>
Non-operating receipts (disbursements):		
Use of money and property	21,408	12,706
Proceeds from sale of property	316	3,123
Net change in sewer fees collected	367	-
Water revenue bond repayments	(105,000)	(105,000)
Debt service interest expense	(20,838)	(23,151)
Net change in customers' deposits	(6,016)	(2,388)
Total non-operating receipts (disbursements)	<u>(109,763)</u>	<u>(114,710)</u>
Net change in cash basis net assets	29,266	(15,933)
Cash basis net assets beginning of year	<u>584,365</u>	<u>600,298</u>
Cash basis net assets end of year	<u>\$ 613,631</u>	<u>\$ 584,365</u>

## LONG-TERM DEBT

At June 30, 2006, the Centerville Municipal Waterworks had \$813,590 in bonds and other long-term debt outstanding, compared to \$909,835 in 2005, as shown below.

Outstanding Debt at Year End		
	June 30	
	2006	2005
Water Revenue Refinancing Bonds	\$ 585,000	\$ 690,000
Rathbun Regional Water Association	217,000	217,000
Iowa Trust and Savings Bank	-	2,835
U.S. Bank	<u>11,590</u>	<u>-</u>
Total	<u>\$ 813,590</u>	<u>\$ 909,835</u>

Debt was issued in April 2006 for the purchase of equipment. The overall decrease in the total debt balance was due to regular scheduled payments.

## **ECONOMIC FACTORS AND FUTURE BUDGET IMPLICATIONS**

We finished the water main project started in February 2005 when it was awarded to the Centerville Water Department. We spent approximately \$225,000 of our own money to match the \$250,000 grant. This was higher than anticipated because we replaced a 12" main near Curwood. This was done because of a main break in that area that blew out their parking lot. We re-routed the new main around the parking lot.

We did not borrow money for plant improvements as we closed the plant in July 2006.

Curwood has cut back their water usage by about one million gallons per month through cutbacks in their operations.

We are also anticipating the closing of Rubbermaid in near future which is a water usage loss of approximately 1.4 million gallons per month. This will also affect their nearly 500 employees/our customers.

We are working on a \$450,000 grant which will need to be matched. We anticipate borrowing \$450,000 from the state revolving fund.

All of these items will affect our budget and overall economics on our city.

## **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. 12<sup>th</sup> St., Centerville, IA 52544.

# CENTERVILLE MUNICIPAL WATERWORKS

## Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets For the Year Ended June 30, 2006

		Water Utility
Operating receipts:		
Charges for service	\$	1,074,018
Miscellaneous		171,919
Total operating receipts		1,245,937
Operating disbursements:		
Business type activities		1,106,908
Total operating disbursements		1,106,908
Excess of operating receipts over operating disbursements		139,029
Non-operating receipts (disbursements):		
Use of money and property		21,408
Proceeds from sale of property		316
Sewer fees collected for the City		727,988
Sewer fees remitted to the City		(727,621)
Water revenue bond repayments		(105,000)
Debt service interest expense		(20,838)
Net change in customers' deposits		(6,016)
Total non-operating receipts (disbursements)		(109,763)
Net change in cash basis net assets		29,266
Cash basis net assets, beginning of year		584,365
Cash basis net assets, end of year	\$	613,631
Cash basis net assets		
Restricted for:		
Customers' deposits	\$	55,303
Reserved for debt service		480,803
Total restricted net assets		536,106
Unrestricted		77,525
Total cash basis net assets	\$	613,631

See accompanying notes to financial statement.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement

June 30, 2006

### Note 1 – Summary of Significant Accounting Policies

#### A. Reporting Entity

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

#### C. Basis of Accounting

The Centerville Municipal Waterworks Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statement 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 statement does 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.

#### D. Net Assets

Funds set aside for bond principal and interest payments, capital projects, and customer water deposits are classified as restricted.

#### E. Investments

Investments are stated at cost, which approximates market.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued)

June 30, 2006

### Note 2 – Cash and Investments

The Waterworks' deposits in banks at June 30, 2006 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.

At June 30, 2006, the Waterworks investments consist entirely of certificates of deposits.

Interest rate risk – The Waterworks' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in 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 Waterworks.

### Note 3 – Compensated Absences

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 payments payable to employees at June 30, 2006 are as follows:

<u>Type of Benefit</u>	<u>Amount at June 30, 2006</u>
Vacation	\$ <u>15,883</u>

The liability has been computed based on rates of pay as of June 30, 2006.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2006

Note 4 – Revenue Notes

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

Year Ending <u>June 30,</u>	<u>Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>
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>585,000</u>	<u>58,540</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.
- 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.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued)

June 30, 2006

### Note 5 – Notes Payable

The Waterworks is indebted to U.S. Bank in the amount of \$10,590 as of June 30, 2006. The note is due in monthly installments of \$1,185.61 including interest at 4.90 percent per annum. The note is secured by equipment. The note matures in April 2007.

### 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.

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

<u>Year Ending</u> <u>June 30,</u>	<u>Minimum Water</u> <u>Purchase Payments</u>
2007	\$ 160,500
2008	189,000
2009	189,000
2010	189,000
2011	189,000

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued)

June 30, 2006

### 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, 2006, 2005 and 2004 were \$17,762, \$16,270, and \$19,734 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

## Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - by Category As of and for the Year Ended June 30, 2006

	<u>Water Utility</u>	<u>Water Revenue Bond Sinking</u>
Receipts:		
Charges for services	\$ 1,074,018	-
Miscellaneous	171,919	-
Non-operating:		
Rent income	3,000	-
Interest on investments	4,418	2,864
Proceeds from sale of property	316	-
Sewer fees collected for the City	727,988	-
Sewer fees remitted to the City	(727,621)	-
Customers' deposits	-	-
Total receipts	1,254,038	2,864
Disbursements:		
Business type activities	1,106,908	-
Debt service:		
Water revenue bond redemption	-	105,000
Interest payments	-	20,838
Customers' refunded deposits	-	-
Total disbursements	1,106,908	125,838
Excess (deficiency) of receipts over (under) disbursements	147,130	(122,974)
Other financing sources (uses):		
Operating transfers in (out):		
Customers' deposits	1,058	-
Water Reserve Improvement	118,141	-
Water Reserve Improvement	(167,443)	-
Water Revenue Reserve	5,949	-
Water Revenue Bond Sinking	50,000	(50,000)
Water Revenue Bond Sinking	(136,768)	136,768
Total other financing sources (uses)	(129,063)	86,768
Net change in cash basis net assets	18,067	(36,206)
Cash basis net assets, beginning of year	59,458	85,601
Cash basis net assets, end of year	\$ 77,525	49,395
Cash basis net assets:		
Restricted for:		
Customers' deposits	\$ -	-
Reserved for debt service	-	49,395
Unrestricted	77,525	-
Total cash basis net assets	\$ 77,525	49,395

See accompanying independent auditors' report.

<u>Water Revenue Reserve</u>	<u>Water Reserve Improvement</u>	<u>Customer Deposits</u>	<u>Total</u>
-	-	-	1,074,018
-	-	-	171,919
-	-	-	3,000
6,421	3,594	1,111	18,408
-	-	-	316
-	-	-	727,988
-	-	-	(727,621)
-	-	21,203	21,203
<u>6,421</u>	<u>3,594</u>	<u>22,314</u>	<u>1,289,231</u>
-	-	-	1,106,908
-	-	-	105,000
-	-	-	20,838
-	-	27,219	27,219
-	-	27,219	1,259,965
<u>6,421</u>	<u>3,594</u>	<u>(4,905)</u>	<u>29,266</u>
-	-	(1,058)	-
-	(118,141)	-	-
-	167,443	-	-
(5,949)	-	-	-
-	-	-	-
-	-	-	-
<u>(5,949)</u>	<u>49,302</u>	<u>(1,058)</u>	<u>-</u>
472	52,896	(5,963)	29,266
<u>186,100</u>	<u>191,940</u>	<u>61,266</u>	<u>584,365</u>
<u>186,572</u>	<u>244,836</u>	<u>55,303</u>	<u>613,631</u>
-	-	55,303	55,303
186,572	244,836	-	480,803
-	-	-	77,525
<u>186,572</u>	<u>244,836</u>	<u>55,303</u>	<u>613,631</u>

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Indebtedness For the Year Ended June 30, 2006

<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>
US Bank	April 24, 2006	4.40	\$ <u>13,851</u>

See accompanying independent auditors' report.

<u>Balance June 30, 2005</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance June 30, 2006</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>690,000</u>	<u>-</u>	<u>105,000</u>	<u>585,000</u>	<u>20,535</u>	<u>1,080</u>
<u>217,000</u>	<u>-</u>	<u>-</u>	<u>217,000</u>	<u>-</u>	<u>-</u>
<u>2,835</u>	<u>-</u>	<u>2,835</u>	<u>-</u>	<u>12</u>	<u>-</u>
<u>-</u>	<u>13,851</u>	<u>2,261</u>	<u>11,590</u>	<u>110</u>	<u>-</u>

Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 27, 2006. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statement 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 the 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, we believe the reportable condition described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Centerville Municipal Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, 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 that are 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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Centerville Municipal Waterworks and other parties to whom the Centerville Municipal Waterworks may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Centerville Municipal Waterworks 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.

*TDE&T Financial Group, P.C.*

Centerville, Iowa  
November 27, 2006

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings For the Year Ended June 30, 2006

### I. Summary of Independent Auditors' Results:

- A. The auditors' report expresses an unqualified opinion on the financial statement, which was 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 statement, including a material weakness.
- C. The audit did not disclose any noncompliance that is material to the financial statement.
- D. The audit disclosed no audit findings that the auditor is required to report.

### II. Findings related to the financial statement:

#### 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. Water utility billings, collections, deposits, posting to customer accounts and cash receipts journal, and reconciliation of billings to collections and delinquent accounts are all done by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

Recommendation – We realize that with a limited number of employees, segregation of duties is difficult. However, the Centerville Municipal Waterworks should 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:

- 06-III-1 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.
- 06-III-2 Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- 06-III-3 Certified Budget – The budget certified by the City of Centerville includes amounts budgeted for the Centerville Municipal Waterworks. Disbursements during the year ended June 30, 2006 did not exceed the amount budgeted.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings (Continued) For the Year Ended June 30, 2006

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

06-III-4 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.

06-III-5 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>1,494</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.

06-III-6 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.

06-III-7 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

06-III-8 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.

## News Release

TD&T Financial Group, P.C. today released an audit report on the Centerville Municipal Waterworks.

The Waterwork's receipts totaled \$1,267,661 for the year ended June 30, 2006, a 15 percent increase from 2005. The receipts included \$1,074,018 in charges for services, \$171,919 of miscellaneous operating receipts, \$21,408 of interest on investments, and \$316 from the sale of property.

Disbursements for the year totaled \$1,232,746, an 11 percent increase from the prior year, and included operating disbursements of \$1,106,908 and debt service of \$125,838.

A copy of the audit report is available for review in the Centerville Waterwork's office, in the office of the Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/reports.htm>.