

**CENTERVILLE
MUNICIPAL WATERWORKS**

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

June 30, 2007

CENTERVILLE MUNICIPAL WATERWORKS

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CENTERVILLE MUNICIPAL WATERWORKS

Waterworks' Officials June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Gordon	Trustee	August, 2010
Rob Lind	Trustee	August, 2009
Jack Williams	Trustee	August, 2010
Jerry Baker	Trustee	August, 2007
Linda Miller	Trustee	August, 2009
Bill Ursta	General Manager	
Kay Guffey	Office Supervisor	Indefinite
Deb Cossolotto	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 statement of the Centerville Municipal Waterworks, Centerville, Iowa, for the year ended June 30, 2007. 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, for the year ended June 30, 2007, and its indebtedness at June 30, 2007 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2008 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 16 and 17 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.

TDE&T Financial Group, P.C.

Centerville, Iowa
May 12, 2008

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, 2007. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

2007 FINANCIAL HIGHLIGHTS

The highlights for the fiscal year July 1, 2006 to June 30, 2007 are as follows:

The water plant was closed in July 2006 and we now buy all of our water at the cost of \$1.50 per 1,000 gallons from Rathbun Regional Water Association. The average cost remains at \$1.50 because of the volume purchased each month ranges from 19 million to 25 million gallons.

We will have a small water rate increase in October 2007 to build up our reserves for the painting and cleaning of the two water towers that were inspected in April 2007. The project could cost as much as \$100,000 per tower depending upon their needs.

We finished our water main project this year. We put in 19 blocks of new water mains with a grant of \$250,000 and the use of the Water Department money saved in the improvement fund as a matching contribution. The completion of this project will lower our water loss and overtime in the distribution department.

We still maintain our distribution system of 30 miles, water towers, billing and collection, customer service departments, and read all water meters monthly.

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, 2007 and 2006 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,	
	2007	2006
Operating receipts:		
Charges for service	\$ 1,022,345	\$ 1,074,018
Miscellaneous	246,695	171,919
Total operating receipts	<u>1,269,040</u>	<u>1,245,937</u>
Operating disbursements:		
Business type activities	<u>1,282,491</u>	<u>1,106,908</u>
Total operating disbursements	<u>1,282,491</u>	<u>1,106,908</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(13,451)</u>	<u>139,029</u>
Non-operating receipts (disbursements):		
Use of money and property	23,821	21,408
Proceeds from sale of property	-	316
Net change in sewer fees collected	(367)	367
Water revenue bond repayments	(110,000)	(105,000)
Debt service interest expense	(18,375)	(20,838)
Net change in customers' deposits	(4,978)	(6,016)
Total non-operating receipts (disbursements)	<u>(109,899)</u>	<u>(109,763)</u>
Net change in cash basis net assets	(123,350)	29,266
Cash basis net assets beginning of year	<u>613,631</u>	<u>584,365</u>
Cash basis net assets end of year	<u>\$ 490,281</u>	<u>\$ 613,631</u>

LONG-TERM DEBT

At June 30, 2007, the Centerville Municipal Waterworks had \$739,515 in bonds and other long-term debt outstanding, compared to \$813,590 in 2006, as shown below.

Outstanding Debt at Year End		
	June 30	
	2007	2006
Water Revenue Refinancing Bonds	\$ 475,000	\$ 585,000
Rathbun Regional Water Association	217,000	217,000
U.S. Bank	<u>47,515</u>	<u>11,590</u>
Total	<u>\$ 739,515</u>	<u>\$ 813,590</u>

Debt was issued in March 2007 for the purchase of a building. The overall decrease in the total debt balance was due to regular scheduled payments.

ECONOMIC FACTORS AND FUTURE BUDGET IMPLICATIONS

We will start a new water main project in the spring of 2008. We will replace 33 blocks of old mains at a cost of approximately \$900,000.

We have received a CDBG for \$450,000 and a SRF loan of \$450,000 to pay for this project. This should be the final large water main project for about 5 years.

Rathbun Regional Water raised their rates February 2007. This will cost us about \$5,000 more per month to buy all of the water.

We had a \$2 per month per meter rate increase in October 2007 and this has kept the water department in the positive. We do not foresee any water rate increases in the next couple of years.

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. 12th 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, 2007

		Water Utility
Operating receipts:		
Charges for service	\$	1,022,345
Miscellaneous		246,695
Total operating receipts		1,269,040
Operating disbursements:		
Business type activities		1,282,491
Total operating disbursements		1,282,491
Excess (deficiency) of operating receipts over (under) operating disbursements		(13,451)
Non-operating receipts (disbursements):		
Use of money and property		23,821
Sewer fees collected for the City		661,088
Sewer fees remitted to the City		(661,455)
Water revenue bond repayments		(110,000)
Debt service interest expense		(18,375)
Net change in customers' deposits		(4,978)
Total non-operating receipts (disbursements)		(109,899)
Net change in cash basis net assets		(123,350)
Cash basis net assets, beginning of year		613,631
Cash basis net assets, end of year	\$	490,281
Cash basis net assets		
Restricted for:		
Customers' deposits	\$	51,323
Reserved for debt service		380,538
Total restricted net assets		431,861
Unrestricted		58,420
Total cash basis net assets	\$	490,281

See accompanying notes to financial statement.

CENTERVILLE MUNICIPAL WATERWORKS

Notes to Financial Statement June 30, 2007

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, 2007

Note 2 – Cash and Investments

The Waterworks' deposits in banks at June 30, 2007 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, 2007, 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, 2007 are as follows:

<u>Type of Benefit</u>	<u>Amount at June 30, 2007</u>
Vacation	\$ <u>16,053</u>

The liability has been computed based on rates of pay as of June 30, 2007.

CENTERVILLE MUNICIPAL WATERWORKS

Notes to Financial Statement (Continued) June 30, 2007

Note 4 – Revenue Notes

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

<u>Year Ending</u> <u>June 30.</u>	Revenue Notes	
	<u>Principal</u>	<u>Interest</u>
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>475,000</u>	<u>40,315</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, 2007

Note 5 – Notes Payable

The Waterworks is indebted to U.S. Bank in the amount of \$47,515 as of June 30, 2007. The note is due in monthly installments of \$1,513 including interest at 5.63 percent per annum. The note is secured by equipment. The note matures in April 2010.

The amounts of the annual maturities for each of the five following years are:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 15,887
2009	16,804
2010	14,824
2011	-
2012	-

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 four years would be as follows:

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

CENTERVILLE MUNICIPAL WATERWORKS

Notes to Financial Statement (Continued) June 30, 2007

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, 2007, 2006 and 2005 were \$14,092, \$17,762, and \$16,270 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**

**Budgetary Comparison Schedule of Receipts, Disbursements and
Changes in Balances - Budget and Actual (Cash Basis)
Year Ended June 30, 2007**

	<u>Actual</u>	<u>Less Funds Not Required to be Budgeted</u>	<u>Net</u>
Receipts:			
Use of money and property	\$ 23,821	2,287	21,534
Charges for service	1,683,433	661,088	1,022,345
Miscellaneous	<u>246,695</u>	<u>-</u>	<u>246,695</u>
Total receipts	1,953,949	663,375	1,290,574
Disbursements:			
Business type activities	<u>2,077,299</u>	<u>666,433</u>	<u>1,410,866</u>
Excess (deficiency) of receipts over (under) disbursements	(123,350)	(3,058)	(120,292)
Other financing uses, net:			
Loan proceeds	-	-	-
Operating transfers in (out)	<u>-</u>	<u>(1,289)</u>	<u>1,289</u>
	<u>-</u>	<u>(1,289)</u>	<u>1,289</u>
Change in cash basis net assets	(123,350)	(4,347)	(119,003)
Balance, beginning of year	<u>613,631</u>	<u>55,670</u>	<u>557,961</u>
Balance, end of year	\$ <u><u>490,281</u></u>	<u><u>51,323</u></u>	<u><u>438,958</u></u>

See accompanying notes to the financial statements.

<u>Budgeted Amounts</u>		<u>Variance</u>
<u>Original</u>	<u>Final</u>	<u>Favorable</u> <u>(Unfavorable)</u>
5,400	5,400	16,134
1,193,088	1,193,088	(170,743)
<u>629,872</u>	<u>629,872</u>	<u>(383,177)</u>
<u>1,828,360</u>	<u>1,828,360</u>	<u>(537,786)</u>
<u>1,828,360</u>	<u>1,903,802</u>	<u>75,442</u>
-	(75,442)	<u><u>(462,344)</u></u>
-	-	
-	-	
<u>-</u>	<u>-</u>	
-	(75,442)	
<u>568,844</u>	<u>568,844</u>	
<u><u>568,844</u></u>	<u><u>493,402</u></u>	

CENTERVILLE MUNICIPAL WATERWORKS

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The Centerville Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$75,442. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amount budgeted.

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, 2007

	Water Utility	Water Revenue Bond Sinking
Receipts:		
Charges for services	\$ 1,022,345	-
Miscellaneous	246,695	-
Non-operating:		
Rent income	3,000	-
Interest on investments	2,786	2,730
Sewer fees collected for the City	661,088	-
Sewer fees remitted to the City	(661,455)	-
Customers' deposits	-	-
Total receipts	1,274,459	2,730
Disbursements:		
Business type activities	1,282,491	-
Debt service:		
Water revenue bond redemption	-	110,000
Interest payments	-	18,375
Customers' refunded deposits	-	-
Total disbursements	1,282,491	128,375
Excess (deficiency) of receipts over (under) disbursements	(8,032)	(125,645)
Other financing sources (uses):		
Operating transfers in (out):		
Customers' deposits	1,289	-
Water Reserve Improvement	303,919	-
Water Reserve Improvement	(204,482)	-
Water Revenue Reserve	3,571	-
Water Revenue Bond Sinking	-	-
Water Revenue Bond Sinking	(115,370)	115,370
Total other financing sources (uses)	(11,073)	115,370
Net change in cash basis net assets	(19,105)	(10,275)
Cash basis net assets, beginning of year	77,525	49,395
Cash basis net assets, end of year	\$ 58,420	39,120
Cash basis net assets:		
Restricted for:		
Customers' deposits	\$ -	-
Reserved for debt service	-	39,120
Unrestricted	58,420	-
Total cash basis net assets	\$ 58,420	39,120

See accompanying independent auditors' report.

<u>Water Revenue Reserve</u>	<u>Water Reserve Improvement</u>	<u>Customer Deposits</u>	<u>Total</u>
-	-	-	1,022,345
-	-	-	246,695
-	-	-	3,000
6,806	6,212	2,287	20,821
-	-	-	661,088
-	-	-	(661,455)
-	-	18,387	18,387
<u>6,806</u>	<u>6,212</u>	<u>20,674</u>	<u>1,310,881</u>
-	-	-	1,282,491
-	-	-	110,000
-	-	-	18,375
-	-	23,365	23,365
<u>-</u>	<u>-</u>	<u>23,365</u>	<u>1,434,231</u>
<u>6,806</u>	<u>6,212</u>	<u>(2,691)</u>	<u>(123,350)</u>
-	-	(1,289)	-
-	(303,919)	-	-
-	204,482	-	-
(3,571)	-	-	-
-	-	-	-
-	-	-	-
<u>(3,571)</u>	<u>(99,437)</u>	<u>(1,289)</u>	<u>-</u>
3,235	(93,225)	(3,980)	(123,350)
<u>186,572</u>	<u>244,836</u>	<u>55,303</u>	<u>613,631</u>
<u>189,807</u>	<u>151,611</u>	<u>51,323</u>	<u>490,281</u>
-	-	51,323	51,323
189,807	151,611	-	380,538
<u>-</u>	<u>-</u>	<u>-</u>	<u>58,420</u>
<u>189,807</u>	<u>151,611</u>	<u>51,323</u>	<u>490,281</u>

CENTERVILLE MUNICIPAL WATERWORKS

Schedule of Indebtedness For the Year Ended June 30, 2007

<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>
US Bank	April 24, 2006	4.40	\$ <u>13,851</u>
US Bank	March 30, 2007	5.63	\$ <u>50,000</u>

See accompanying independent auditors' report.

<u>Balance June 30, 2006</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance June 30, 2007</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>585,000</u>	<u>-</u>	<u>110,000</u>	<u>475,000</u>	<u>18,375</u>	<u>1,280</u>
<u>217,000</u>	<u>-</u>	<u>-</u>	<u>217,000</u>	<u>-</u>	<u>-</u>
<u>11,590</u>	<u>-</u>	<u>11,590</u>	<u>-</u>	<u>264</u>	<u>-</u>
<u>-</u>	<u>50,000</u>	<u>2,485</u>	<u>47,515</u>	<u>2,054</u>	<u>161</u>



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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, for the year ended June 30, 2007, and have issued our report thereon dated May 12, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Centerville Municipal Waterworks' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Waterworks' financial statements that is more than inconsequential will not be prevented or detected by the Waterworks' internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the Schedule of Findings are material weaknesses.

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Centerville Municipal Waterworks' operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of Centerville Municipal 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.

Centerville Municipal Waterworks' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Centerville Municipal Waterworks' responses, we did not audit Centerville Municipal Waterworks' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Centerville Municipal Waterworks and other parties to whom Centerville Municipal Waterworks may report. 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
May 12, 2008

CENTERVILLE MUNICIPAL WATERWORKS

Schedule of Findings For the Year Ended June 30, 2007

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. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statement. All were determined to be material weaknesses.
- 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:

Material Weaknesses:

- 1) 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.

- 2) Financial Reporting – During the audit, we identified material amounts of fund transfers and expenses not reported correctly in the Waterworks' financial statements. Adjustments were subsequently made by the Waterworks' to properly report these amounts in the financial statements.

Recommendation – The Waterworks' should carefully review general ledger postings for revenues and expenses to ensure they are posted correctly and that transfers between funds equal.

Response – We will review general ledger postings and review fund transfers to make sure they equal.

Conclusion – Response accepted.

(continued)

CENTERVILLE MUNICIPAL WATERWORKS

Schedule of Findings (Continued) For the Year Ended June 30, 2007

II. Findings related to the financial statement (continued):

Material Weaknesses (continued):

- 3) Reconciliation of Utility Billings, Collections and Deposits – Although utility billings and collections were reconciled to amounts billed and receipts, the reconciliation did not include deposits.

Recommendation – The reconciliation procedures already established are beneficial. However, to strengthen internal control, the reconciliation should include reconciling to deposits.

Response – We will develop a method of reconciling deposits to billings and collections.

Conclusion – Response accepted.

- 4) Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America – Management does not possess adequate knowledge and training in order to prepare financial statements, including required disclosures, in accordance with accounting principles generally accepted in the United States of America. Internal controls should be in place to provide reasonable assurance that the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Misstatement of financial statements and omissions of required disclosures could occur and not be detected.

Recommendation – We recommend that personnel in charge of accounting receive additional training in order to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.

Response – We will obtain training for bookkeepers so they may be sufficiently knowledgeable to prepare a financial statement in accordance with accounting principles generally accepted in the United States of America.

Conclusion – Response accepted.

Instances of non-compliance:

- 1) Electronic Images of Cancelled Checks – In accordance with Chapter 554D.114(5) of the Code of Iowa, if cancelled checks are not received, the electronically retained check images should show both front and back of each check. The Waterworks switched to electronic check images during the fiscal year, but only received the front of each check.

(continued)

CENTERVILLE MUNICIPAL WATERWORKS

Schedule of Findings (Continued) For the Year Ended June 30, 2007

II. Findings related to the financial statement (continued):

Recommendation – The Waterworks should contact their bank in order to obtain electronic images of the back of the cancelled checks.

Response – We will contact our banking institution.

Conclusion – Response accepted.

III. Other findings related to required statutory reporting:

- 07-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.
- 07-III-2 Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- 07-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, 2007 did not exceed the amount budgeted.
- 07-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.
- 07-III-5 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.
- 07-III-6 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 07-III-7 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.

CENTERVILLE MUNICIPAL WATERWORKS

Staff

This audit was performed by:

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