

KEOKUK MUNICIPAL WATER WORKS

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2007

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5
Management’s Discussion and Analysis		7-11
Financial Statements:		
	<u>Exhibit</u>	
Statement of Net Assets	A	14-15
Statement of Revenues, Expenses, and Changes in Net Assets	B	16
Statement of Cash Flows	C	17
Notes to Financial Statements		18-22
Required Supplemental Information		
Statement of Revenues, Expenses and Changes in Net Assets Actual and Budgeted		24-25
Supplemental Information		
	<u>Schedule</u>	
Schedule of Operating Expenses-Budgeted and Actual	1	27-28
Statement of Changes in Assets Restricted for Landfill, Sewer, and Garbage Charges	2	29
Statement of Changes in Assets Restricted for Water Revenue Capital Loan Note Debt Service	3	30
Schedule of Fixed Assets and Depreciation	4	31-32
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and other Matters (Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>)		33-34
Schedule of Findings		35-36

KEOKUK MUNICIPAL WATER WORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Johnstone	Trustee	November, 2011
Bruce Brandt	Trustee	November, 2007
Dave Bogner	Trustee	November, 2009
John Beaird	Trustee	November, 2009
Mike Hausch	Trustee	November, 2011
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
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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, 2007. 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 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, 2007 and the changes in its net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007 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. 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 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 1 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

November 30, 2007

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, 2007. We encourage readers to consider this information in conjunction with the Keokuk Municipal Waterworks' financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- The Keokuk Municipal Waterworks' operating revenues increased 9%, or \$450,224 from fiscal 2006 to fiscal 2007.
- The Keokuk Municipal Waterworks' operating expenses increased 11% or \$339,940 in fiscal 2007 from fiscal 2006.
- The Keokuk Municipal Waterworks' net assets increased 5%, or \$902,332 from June 30, 2006 to June 30, 2007

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 2007 totaled \$17,776,643. This compares to \$16,874,311 for fiscal 2006. A summary of the Waterworks' net assets is presented below.

	NET ASSETS	
	2007 Actual	2006 Actual
Assets		
Unrestricted Cash	654,244	706,044
Restricted Cash	3,812,755	3,876,899
Property, Plant and Equipment	24,921,630	24,595,929
Unamortized Expense	177,649	208,544
 Total	 29,566,278	 29,387,416
Liabilities		
Unrestricted Current	1,054,941	1,104,368
Restricted	509,694	498,737
Noncurrent	10,225,000	10,910,000
 Total Liabilities	 11,789,635	 12,513,105
 Total Net Assets	 17,776,643	 16,874,311

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating revenues are generated from the distribution and purifying of water. This accounts for 95% 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, 2007 is presented below:

CHANGES IN NET ASSETS

	2007 Actual	2006 Actual
Operating Revenues		
Water Sales	5,489,965	4,992,361
Miscellaneous Charges & City	55,954	102,891
Service Charge & Penalties	38,524	38,967
 Total Operating Revenues	 5,584,443	 5,134,219
Operating Expense		
Plant	2,356,405	1,894,806
Distribution	282,963	254,976
Meter Shop	178,703	192,153
Office	750,341	886,537
 Operating Expense	 3,568,412	 3,228,472
Depreciation	829,334	754,881
Amortization	30,895	66,297
 Total Operating Expense	 4,428,641	 4,049,650
 Operating Income	 1,155,802	 1,084,569
Non-Operating Revenues (Expenses)		
Interest on Investments	170,940	416,984
Capital Loan Note Int. Expense	(424,410)	(967,567)
Net Non-Operating Revenues (Exp)	(253,470)	(564,983)
 Increase in Net Assets	 902,332	 519,586
 Net Assets Beginning of Yea	 16,874,311	 16,354,725
 Net Assets End of Year	 17,776,643	 16,874,311

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 2007, operating revenues increased by \$446,894. Operating expenses increased by \$339,940. This is due to chemical cost increase, the handling of lime sludge and repairs to mains due to leaks.

STATEMENT OF CASH FLOWS

Cash flows are directly related to our pumpage, 95% of our income comes from water sales. Operating expenses account for 97% of our water sales income. The budget for FYE 6-30-07 was \$6,900,174. Total expenditures for the year totaled \$6,613,086.

CAPITAL ASSETS

At June 30, 2006, the Keokuk Municipal Waterworks had \$37,768,432 in capital assets. A summary of projects follows.

Distribution System:

- High Street 13th to 18th
- Purchase of Meters

Water Treatment Plant

- Additional filtration capacity
- Sludge Disposal Equipment

Vehicles:

- 2007 F150 Ford Truck
- Trailer

Capital expenditures totaled \$1,155,035., a decrease of 26% over 2006.

LONG-TERM DEBT

At June 30, 2007, the Waterworks had \$10,905,000 in debt outstanding. This debt is from refinancing of the 1995 and 1996 Bonds in April 2004 and January 2005. See page 21 of the annual 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. 4th Street, Keokuk, Iowa.

KEOKUK MUNICIPAL WATER WORKS

FINANCIAL STATEMENTS

Exhibit A

KEOKUK MUNICIPAL WATER WORKS
Statement of Net Assets
June 30, 2007

Assets

Current unrestricted assets:

Cash and cash equivalents	\$	87,484	
Interest receivable on investments		51,304	
Accounts receivable		449,062	
Prepaid expenses		<u>66,394</u>	
Total current unrestricted assets			\$ 654,244

Restricted assets:

Sewer, garbage & landfill:

Cash	\$ 120,806	
Accounts receivable	<u>180,484</u>	301,290

Consumers water meter deposits:

Cash	<u>137,375</u>	137,375
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Consumers sewer meter deposits:

Cash	11,029	
Certificates of deposit	<u>60,000</u>	71,029

Sinking fund:

Cash	<u>333,385</u>	333,385
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Reserve fund:

Certificate of deposit	480,720	
Guaranteed investment contracts	<u>737,750</u>	1,218,470

Improvement fund:

Certificate of deposit	<u>250,000</u>	250,000
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General regulatory and system improvement:

Cash and cash equivalents	220,806	
Certificates of deposit	<u>1,280,400</u>	<u>1,501,206</u>

 Total restricted assets 3,812,755

Property, plant and equipment:

Land 364,766

Buildings 240,506
Less: accumulated depreciation (199,123) 41,383

Plant and tanks 30,656,026
Less: accumulated depreciation (9,574,919) 21,081,107

Distribution system, meters and hydrants 5,434,371
Less: accumulated depreciation (2,051,165) 3,383,206

Machinery and equipment 1,072,763
Less: accumulated depreciation (1,021,595) 51,168

 Total property, plant and equipment 24,921,630

Other assets:

Unamortized bond expense (Note 1) 177,649

Total assets **\$ 29,566,278**

See notes to financial statements.

Liabilities and net assets

Current liabilities (payable from unrestricted assets):

Accounts payable	\$ 60,711	
State sales tax payable	4,423	
Accrued compensated absences (Note 1)	205,417	
Accrued interest on water revenue capital loan notes	104,390	
Current portion of long-term debt	680,000	
Total unrestricted current liabilities		\$ 1,054,941

Liabilities (payable from restricted assets):

Due to city - sewer & garbage charges	244,813	
Due to GRRW - landfill charges	56,477	
Consumer water meter deposits	137,375	
Consumer sewer meter deposits	71,029	
Total Restricted Liabilities		509,694

Noncurrent liabilities:

Water revenue capital loan notes (Note 4)	10,905,000	
Less: Current portion of long-term debt	(680,000)	10,225,000

Total liabilities

11,789,635

Net assets

Invested in capital assets, net of related debt	14,016,630	
Restricted for water revenue capital loan notes (Note 4):		
Sinking fund	333,385	
Reserve fund	1,218,470	
Improvement fund	250,000	
Unrestricted	1,958,158	

Total net assets

\$ 17,776,643

KEOKUK MUNICIPAL WATER WORKS
Statement of Revenues, Expenses and
Changes in Net Assets
Year Ended June 30, 2007

Operating revenues:	
Metered sales	\$ 5,489,612
Flat rate sales	353
Miscellaneous charges	55,954
Service charges and penalties	<u>38,524</u>
Total operating revenue	<u>5,584,443</u>
Operating expenses:	
Operating expenses (Schedule 1)	3,568,412
Depreciation	829,334
Amortization	<u>30,895</u>
Total operating expenses	<u>4,428,641</u>
Operating income	<u>1,155,802</u>
Non-operating revenues (expenses):	
Interest on investments	170,940
Capital loan note interest expense	<u>(424,410)</u>
Net non-operating revenues (expenses)	<u>(253,470)</u>
Change in net assets	902,332
Net assets, June 30, 2006	<u>16,874,311</u>
Net assets, June 30, 2007	<u><u>\$ 17,776,643</u></u>

See notes to financial statements.

Exhibit C

KEOKUK MUNICIPAL WATER WORKS
Statement of Cash Flows
Year Ended June 30, 2007

Cash flows from operating activities:	
Cash received form customers-water	\$ 5,647,783
Cash received from customers for deposits & others	1,516,718
Cash received from other operating revenues	55,954
Cash payments to supplies for goods and services	(2,504,929)
Cash payments to employees for services	(1,193,669)
Cash payments to city and GRRWA	(1,505,105)
Net cash provided by operating activities	<u>2,016,752</u>
Cash flows from capital and related financing activities:	
Payments on revenue bonds	(1,033,166)
Purchase of property and equipment	(1,155,035)
Net cash (used) by capital and related financing activities	<u>(2,188,201)</u>
Cash flows from investing activities:	
Proceeds from maturities of certificates of deposit	3,250,720
Purchase of certificates of deposit	(2,721,120)
Interest received	187,612
Bond refunding trust maturities	1,132
Net cash provided by investing activities	<u>718,344</u>
Net increase in cash and cash equivalents	546,894
Cash and cash equivalents, beginning of year	<u>363,991</u>
Cash and cash equivalents, end of year (includes restricted funds of \$823,401.)	<u><u>\$ 910,885</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 1,155,802</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	860,229
Changes in assets and liabilities:	
Decrease in accounts receivable, customers	119,950
(Increase) in prepaid expense	(4,515)
(Decrease) in accounts payable	(97,232)
(Decrease) in accrued expense	(28,439)
Increase in other liabilities	10,957
Total adjustments	<u>860,950</u>
Net cash provided by operating activities	<u><u>\$ 2,016,752</u></u>

See notes to financial statements.

KEOKUK MUNICIPAL WATER WORKS

Notes to Financial Statements
June 30, 2007

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 Assets

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, 2007 include certificates of deposit and guaranteed investment contracts in the amount of \$2,808,870.

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- The Water Works grants credit to customers, substantially all of whom are located in Keokuk, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after thirty days and charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. 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. If the reserve method of accounting for uncollectible accounts was used, it would not have a material affect on the financial statement; 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 stated at cost.

Depreciation expense for the year ended June 30, 2007 is \$829,334. Depreciation of property and equipment is computed by the straight line method based on the following estimated useful lives:

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

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

Changes in property and equipment consist of the following:

	2007				Estimated
	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>	<u>Useful Lives</u>
Land	\$ 364,766	\$ -	\$ -	\$ 364,766	-
Building	240,506	-	-	240,506	10-30 yrs
Plant & Tanks	29,609,551	1,046,475	-	30,656,026	10-50 yrs
Dist. System, Meters & Hydrants	5,345,100	89,271	-	5,434,371	15-80 yrs
Machinery & Equipment	1,064,240	19,289	10,766	1,072,763	5-20 yrs
	<u>36,624,163</u>	<u>1,155,035</u>	<u>10,766</u>	<u>37,768,432</u>	

Amortization of Water Revenue Capital Loan Note Fees- During the years ended June 30, 2004 and 2005, the Water Works incurred costs of \$216,268 in connection with the 2004A and 2005A Water Revenue Refunding Capital Loan Notes. 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, 2013. The expense for the year June 30, 2007 was \$30,895.

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, 2007.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported accounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Investments

The Water Works' 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 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, as amended by statement 40.

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, 2007, 2006 and 2005 were \$47,432, \$46,735 and \$43,189 respectively, equal to the required contributions for each year.

Note 4. Water Revenue Capital Loan Notes Payable

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 were used to advance refund \$6,650,000 of 1995 Water Revenue Capital Loan Notes on the call date of April 1, 2006. These notes mature semi-annually beginning October 1, 2006 through April 1, 2020 with interest rates from 2.15% to 4.55%. Notes maturing after April 1, 2013 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity.

On January 27, 2005, the Keokuk Municipal Water Works issued \$4,505,000 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 were used to advance refund \$4,330,000 of 1996 Water Revenue Capital Loan Notes on the call date of April 1, 2006. These notes mature semi-annually beginning October 1, 2006 through April 1, 2020 with interest rates from 2.95% to 5.00%. Notes maturing after April 1, 2013 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity.

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

Year Ending June 30,	\$7,000,000 Water Revenue Refunding Capital Loan Notes Ser 2004A		\$4,505,000 Water Revenue Refunding Capital Loan Notes Ser 2005A		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2008	420,000	236,940	260,000	176,445	680,000
2009	430,000	227,114	270,000	168,402	700,000	395,516
2010	445,000	215,920	275,000	159,492	720,000	375,412
2011	455,000	203,219	285,000	149,778	740,000	352,997
2012	470,000	189,010	295,000	139,138	765,000	328,148
2013-2017	2,605,000	683,410	1,675,000	501,099	4,280,000	1,184,509
2018-2020	1,825,000	143,696	1,195,000	105,039	3,020,000	248,735
	<u>\$6,650,000</u>	<u>\$1,899,309</u>	<u>\$4,255,000</u>	<u>\$1,399,393</u>	<u>\$10,905,000</u>	<u>\$3,298,702</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 1st 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.

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. Major Customers

Water sales to one major customer were \$3,916,843 for the year ended June 30, 2007 representing 71.35% of the total water sales for the year. At June 30, 2007, amounts due from this customer included in trade accounts receivable were \$351,082.

REQUIRED SUPPLEMENTAL INFORMATION

KEOKUK MUNICIPAL WATER WORKS
Statement of Revenues, Expenses and
Changes in Net Assets
Actual and Budgeted
Year Ended June 30, 2007

	Actual	Adjustment to Budgetary Basis
Operating revenues:		
Metered sales	\$ 5,489,612	\$ -
Flat rate sales	353	-
Miscellaneous charges	55,954	-
Service charges and penalties	38,524	-
Total operating revenue	5,584,443	-
Operating expenses:		
Operating expenses (Schedule 1)	3,568,412	-
Depreciation	829,334	-
Amortization	30,895	-
Total operating expenses	4,428,641	-
Operating income	1,155,802	-
Non-operating revenues (expenses):		
Interest on investments	170,940	-
Property, plant, and equipment	-	(1,155,035)
Capital loan note principal	-	(605,000)
Capital loan note interest expense	(424,410)	-
Net non-operating revenues (expenses)	(253,470)	(1,760,035)
Change in net assets	902,332	(1,760,035)
Net assets, June 30, 2006	16,874,311	-
Net assets, June 30, 2007	\$ 17,776,643	\$ (1,760,035)

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	Budgeted Amounts		Final to net Variance
	Original	Final	
\$ 5,489,612	\$ 4,933,214	\$ 5,460,558	\$ 29,054
353	4,000	4,000	(3,647)
55,954	70,000	70,000	(14,046)
38,524	42,537	42,536	(4,012)
<u>5,584,443</u>	<u>5,049,751</u>	<u>5,577,094</u>	<u>7,349</u>
3,568,412	3,197,263	3,608,264	39,852
829,334	835,234	835,234	5,900
30,895	44,766	44,766	13,871
<u>4,428,641</u>	<u>4,077,263</u>	<u>4,488,264</u>	<u>59,623</u>
<u>1,155,802</u>	<u>972,488</u>	<u>1,088,830</u>	<u>66,972</u>
170,940	135,000	177,980	(7,040)
(1,155,035)	(1,080,000)	(1,200,000)	44,965
(605,000)	(605,000)	(605,000)	-
(424,410)	(606,910)	(606,910)	182,500
<u>(2,013,505)</u>	<u>(2,156,910)</u>	<u>(2,233,930)</u>	<u>220,425</u>
(857,703)	(1,184,422)	(1,145,100)	287,397
<u>16,874,311</u>			
<u>\$ 16,016,608</u>			

See accompanying independent auditor's report.

SUPPLEMENTAL INFORMATION

Schedule 1

KEOKUK MUNICIPAL WATER WORKS
 Schedule of Operating Expenses - Budgeted and Actual
 For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Actual Over (Under) <u>Budget</u>
Plant Operation and Maintenance:			
Supervision labor	\$ 101,633	\$ 102,152	\$ 519
Maintenance labor	128,414	125,482	(2,932)
Operation labor	209,081	180,744	(28,337)
Laboratory labor	35,240	35,445	205
Social security and IPERS	57,344	57,141	(203)
Health insurance	82,902	95,837	12,935
Flood control	1,000	-	(1,000)
Purification supplies	824,475	818,034	(6,441)
Utilities	340,656	378,242	37,586
Plant maintenance	279,970	282,332	2,362
Supplies	45,000	36,577	(8,423)
Sludge disposal	233,683	232,683	(1,000)
Education and travel	7,000	4,294	(2,706)
Intake	4,000	2,867	(1,133)
Generator expense	7,000	4,575	(2,425)
	<u>2,357,398</u>	<u>2,356,405</u>	<u>(993)</u>
Distribution Maintenance:			
Supervision labor	41,380	43,180	1,800
Maintenance labor	40,310	33,632	(6,678)
Social security and IPERS	10,946	9,912	(1,034)
Health insurance	27,006	22,986	(4,020)
Main leaks	89,098	121,511	32,413
Valves	4,089	2,535	(1,554)
Maintenance	23,000	7,610	(15,390)
Building maintenance	1,800	1,850	50
Supplies	60,000	29,168	(30,832)
Hydrants	5,000	5,298	298
Storage	5,000	2,708	(2,292)
Education and travel	4,000	2,573	(1,427)
	<u>311,629</u>	<u>282,963</u>	<u>(28,666)</u>
Meter Maintenance:			
Supervision labor	41,473	42,915	1,442
Maintenance labor	60,567	59,859	(708)
Meter reading labor	3,082	3,183	101
Social security and IPERS	14,087	14,198	111
Health insurance	19,069	28,446	9,377
Meter parts	8,000	6,704	(1,296)
Shop supplies	20,000	22,657	2,657
Education and travel	1,500	741	(759)
	<u>167,778</u>	<u>178,703</u>	<u>10,925</u>

See accompanying independent auditor's report.

KEOKUK MUNICIPAL WATER WORKS
 Schedule of Operating Expenses - Budgeted and Actual
 For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Administration:			
Management salaries	108,145	110,943	2,798
Office salaries	138,334	138,090	(244)
Board fees	1,500	1,250	(250)
Postage and shipping	25,000	23,563	(1,437)
Data processing expense	2,000	-	(2,000)
Office expense	60,000	38,242	(21,758)
Social Security and IPERS	32,864	32,316	(548)
Vehicle maintenance	14,000	18,647	4,647
Engineering and legal	124,617	161,918	37,301
Health insurance	57,695	53,925	(3,770)
Insurance	79,404	78,144	(1,260)
Education and travel	5,000	4,573	(427)
Office building maintenance	20,000	11,111	(8,889)
To city in lieu of taxes	100,000	100,000	-
(Decrease) in compensated absences	-	(25,156)	(25,156)
Bond fees	2,900	2,775	(125)
	<u>771,459</u>	<u>750,341</u>	<u>(21,118)</u>
Total operating expenses	<u>\$ 3,608,264</u>	<u>\$ 3,568,412</u>	<u>\$ (39,852)</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, 2007

	<u>Landfill Charges</u>	<u>Sewer Charges</u>	<u>Garbage Charges</u>	<u>Total</u>
Restricted asset balance, July 1, 2006	\$ 58,915	\$ 125,350	\$ 121,472	\$ 305,737
Revenues:				
Landfill service charges	209,180	-	-	209,180
Sewer service charges	-	750,878	-	750,878
Garbage service charges	-	-	554,362	554,362
Less: billing adjustments	(2,080)	(8,789)	(2,893)	(13,762)
	<u>266,015</u>	<u>867,439</u>	<u>672,941</u>	<u>1,806,395</u>
Expenditures:				
To the city of Keokuk & GRRW	<u>(209,538)</u>	<u>(744,204)</u>	<u>(551,363)</u>	<u>(1,505,105)</u>
Restricted asset balance, June 30, 2007	<u>\$ 56,477</u>	<u>\$ 123,235</u>	<u>\$ 121,578</u>	<u>\$ 301,290</u>
Restricted asset balance is composed of the following:				
Cash	\$ 17,299	\$ 57,345	\$ 46,162	\$ 120,806
Accounts receivable	39,178	65,890	75,416	180,484
	<u>\$ 56,477</u>	<u>\$ 123,235</u>	<u>\$ 121,578</u>	<u>\$ 301,290</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, 2007

	Water Revenue Note Sinking Fund	Water Revenue Note Improvement Fund	Water Revenue Note Reserve Fund	Total
Restricted asset balance, July 1, 2006	\$ 307,355	\$ 250,000	\$ 1,218,470	\$ 1,775,825
Revenues:				
Transfers from operations	1,059,034	-	-	1,059,034
	<u>1,366,389</u>	<u>250,000</u>	<u>1,218,470</u>	<u>2,834,859</u>
Expenditures:				
Note principal payments	605,000	-	-	605,000
Note interest payments and fees	428,004	-	-	428,004
	<u>1,033,004</u>	<u>-</u>	<u>-</u>	<u>1,033,004</u>
Restricted asset balance, June 30, 2007	<u>\$ 333,385</u>	<u>\$ 250,000</u>	<u>\$ 1,218,470</u>	<u>\$ 1,801,855</u>

See accompanying independent auditor's report.

Schedule 4

KEOKUK MUNICIPAL WATER WORKS
 Scheduled Fixed Assets and Depreciation
 For the Year Ended June 30, 2007

	Assets			Balance June 30, 2007
	Balance June 30, 2006	Additions	Deductions	
Land	\$ 364,766	\$ -	\$ -	\$ 364,766
Building	240,506	-	-	240,506
Plant and tanks:				
Water treatment plant	24,619,247	-	-	24,619,247
Intake	193,712	-	-	193,712
Sludge disposal facility	892,538	22,140	-	914,678
Tank painting	1,415,616	-	-	1,415,616
Filter	2,488,438	1,024,335	-	3,512,773
Total plant & tanks	29,609,551	1,046,475	-	30,656,026
Distribution system, meters and hydrants:				
Mains	4,302,611	82,208	-	4,384,819
Meters	767,095	7,063	-	774,158
Hydrants	275,394	-	-	275,394
Total dist. system, meters & hydrants	5,345,100	89,271	-	5,434,371
Machinery and equipment:				
General equipment	46,196	-	-	46,196
Office equipment	235,191	-	-	235,191
Shop equipment	53,727	-	-	53,727
Store & plant equipment	577,550	-	-	577,550
Transportation equipment	151,576	19,289	10,766	160,099
Total machinery & equipment	1,064,240	19,289	10,766	1,072,763
Grand total	\$ 36,624,163	\$ 1,155,035	\$ 10,766	\$ 37,768,432

See accompanying independent auditor's report.

Allowance for Depreciation				
Balance June 30, 2006	Depreciation Taken	Eliminations	Balance June 30, 2007	Net Asset Value
\$ -	\$ -	\$ -	\$ -	\$ 364,766
190,423	8,700	-	199,123	41,383
7,712,469	518,431	-	8,230,900	16,388,347
126,524	3,874	-	130,398	63,314
453,321	18,257	-	471,578	443,100
459,799	70,809	-	530,608	885,008
99,979	111,456	-	211,435	3,301,338
8,852,092	722,827	-	9,574,919	21,081,107
1,307,811	54,714	-	1,362,525	3,022,294
555,104	23,357	-	578,461	195,697
105,164	5,015	-	110,179	165,215
1,968,079	83,086	-	2,051,165	3,383,206
46,067	86	-	46,153	43
218,874	4,569	-	223,443	11,748
53,628	40	-	53,668	59
558,553	3,651	-	562,204	15,346
140,518	6,375	10,766	136,127	23,972
1,017,640	14,721	10,766	1,021,595	51,168
\$ 12,028,234	\$ 829,334	\$ 10,766	\$ 12,846,802	\$ 24,921,630

See accompanying independent auditor's report.

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

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

We have audited the accompanying financial statements of the Keokuk Municipal Water Works as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. 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 Keokuk Municipal Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Keokuk Municipal Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keokuk Municipal Water Works' 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the 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 Keokuk Municipal Water Works' ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Keokuk Municipal Water Works' financial statements that is more than inconsequential will not be prevented or detected by Keokuk Municipal Water Works' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Keokuk Municipal Water Works' 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, of the significant deficiencies described above none are material weaknesses.

Compliance and Other Matters

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 of 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, 2007 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.

The Keokuk Municipal Water Works' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Water Works' responses, we did not audit the Keokuk Municipal Water Works' 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 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 would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keokuk Municipal Water Works 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.

John G. Russell CPA PC

November 30, 2007

KEOKUK MUNICIPAL WATER WORKS
Schedule of Findings
For the Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

No instances of noncompliance were noted.

Significant Deficiencies:

II-A-07 Segregation of Duties-One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. It is recognized that the Water Works has made reasonable efforts to segregate these duties. Because of staffing limitations, the Water Works is not able to segregate all incompatible responsibilities.

Recommendation-We realize that with staffing limitations, segregation of duties is difficult. However, the Water Works should review its control procedures to obtain the maximum internal controls possible under the circumstances.

Response-We are aware of the need to segregate incompatible duties. We will continue to update and follow control procedures as they have been established.

Conclusion-Response accepted.

II-B-07 Accounting Records-The accounts receivable subsidiary ledger does not agree with the general ledger control accounts and contains errors in the customer detail accounts.

Recommendation-The individual customer account balances should be reviewed and corrected if necessary and the account receivable general ledger control accounts should be adjusted to corrected amounts.

Response-We will review the accounts receivable and adjust the general ledger balances.

Conclusion-Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-07 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.

III-B-07 Travel Expense-No expenditures of Water Works’ money for travel expenses of spouses of Water Works officials or employees were noted.

III-C-07 Board Minutes-The Board of Trustees meets in regular monthly sessions, and in special session, then 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.

III-D-07 Questionable Disbursements-No disbursements were found that did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-E-07 Certified Budget-Disbursements during the year ended June 30, 2007 did not exceed budget amounts.

III-F-07 Business Transactions with Water Works Officials and Employees-Business transactions between the Water Works and employees are as follows:

<u>Name and Title</u>	<u>Transaction</u>	<u>Amount</u>
Michael Haney, employee	Mowing	\$4,875.00

These transactions may be a conflict of interest since the transactions were not entered into through competitive bidding and the total transactions were over \$1,500.00.

III-G-07 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.

III-H-07 Revenue Notes-The Water Works has complied with the provisions of the revenue capital loan note resolution.

III-I-07 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.