

CHARITON MUNICIPAL WATERWORKS
CHARITON, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

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CHARITON MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Holder	Chairman	December 31, 2009
Roger Bingham	Vice-Chairman	December 31, 2011
Byron Welch	Secretary	December 31, 2007
James F. Corbett*	Superintendent	Indefinite
Glenn Goodsell**	Superintendent	Indefinite
Ruth A. Ryon	Treasurer	Indefinite

* - Deceased on March 12, 2007.

** - Began on June 4, 2007.

Chariton Municipal Waterworks

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CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
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Independent Auditor's Report

To the Board of Trustees
Chariton Municipal Waterworks

We have audited the accompanying financial statements of the business type activities of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the Waterworks' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Waterworks' 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Chariton Municipal Waterworks are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Chariton that is attributable to the transactions of the Waterworks.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Chariton Municipal Waterworks, at June 30, 2007, and the respective changes in financial position 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 October 30, 2007, on our consideration of the Chariton Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 the internal control over financial reporting or on 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 assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 10 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 financial statements that collectively comprise the Chariton Municipal Waterworks' basic financial statements. Other supplementary information included in Schedule 1, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

October 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton Municipal Waterworks (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 Waterworks financial statements, which follow.

The Waterworks is a component unit of the City of Chariton, Iowa.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the Waterworks business type activities increased 5%, or approximately \$59,000, from fiscal 2006 to fiscal 2007.
- Expenses increased 4%, or approximately \$41,000, in fiscal 2007 from fiscal 2006.
- The Waterworks net assets increased 3%, or approximately \$123,000, from June 30, 2006 to June 30, 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks financial activities.

Proprietary Fund Financial Statements consist of a Statement of Net Assets and a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows. These provide information about the activities of the Waterworks as a whole and present an overall view of the Waterworks finances.

The Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks budget for the year.

Other Supplementary Information provides detailed information about the Waterworks Funds.

REPORTING THE WATERWORKS FINANCIAL ACTIVITIES

Proprietary Fund Financial Statements

One of the most important questions asked about the Waterworks finances is, “Is the Waterworks as a whole better or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year’s revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Waterworks assets and liabilities, with the difference between the two reported as “net assets”. Over time, increases or decreases in the City’s net assets may serve as a useful indicator of whether the financial position of the Waterworks is improving or deteriorating.

The Statement of Activities presents information showing how the Waterworks net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report the following kind of activity:

- Business type activities include the Waterworks. These activities are financed primarily by user charges.

Fund Financial Statements

Proprietary funds account for the Waterworks Enterprise Funds. These funds report services for which the Waterworks charges customers for the service it provides. The Waterworks is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

	Net Assets (Expressed in Thousands)	
	June 30,	
	2007	2006
Current and other assets	\$ 1,155	913
Capital assets	4,203	3,726
Total assets	5,358	4,639
Long-term debt outstanding	1,545	1,011
Other liabilities	113	51
Total liabilities	1,658	1,062
Net assets:		
Invested in capital assets, net of related debt	2,747	2,821
Restricted	454	410
Unrestricted	499	346
Total net assets	\$ 3,700	3,577

Net assets of business type activities increased from FY06 by approximately \$123,000, or 3.4%. The largest portion of the Waterworks net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$499,000 at the end of this year.

	Changes in Net Assets	
	(Expressed in Thousands)	
	Year ended June 30,	
	2007	2006
Revenues:		
Program revenues:		
Charges for service	\$ 1,151	1,111
General revenues:		
Unrestricted investment earnings	39	29
Miscellaneous	42	32
Total revenues	1,232	1,172
Program expenses:		
Water	1,109	1,067
Total expenses	1,109	1,067
Increase in net assets	123	105
Net assets beginning of year	3,577	3,472
Net assets end of year	\$ 3,700	3,577

INDIVIDUAL MAJOR FUND ANALYSIS

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the Waterworks, ended fiscal 2007 with a \$3,700,303 net asset balance compared to the prior year ending net asset balance of \$3,577,328.

BUDGETARY HIGHLIGHTS

The Chariton Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. Over the course of the year, the Waterworks amended its budget one time, increasing budgeted disbursements by \$895,350. The Waterworks actual receipts were greater than the budgeted receipts. In addition, budgeted disbursements were \$273,398 more than actual disbursements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the Waterworks had approximately \$4.2 million invested in a broad range of capital assets, including land, buildings, equipment, vehicles and infrastructure. This is a net increase (including additions and deletions) of approximately \$477,000, or 12.8 percent over last year.

Capital Assets at Year End (Expressed in Thousands)		
	June 30,	
	2007	2006
Land	\$ 48	48
Construction in progress	-	339
Improvements and buildings	48	69
Equipment and vehicles	45	51
Infrastructure	4,062	3,219
Total	\$ 4,203	3,726

The Waterworks had depreciation expense of \$264,887 in FY07 and total accumulated depreciation of \$5,615,256 at June 30, 2007. More detailed information about the Waterworks capital assets is presented in Note 4 to the financial statements.

For business type activities, major additions included purchase of a pickup, backhoe, water tower repair and water main replacements.

Long-Term Debt

At June 30, 2007, the Waterworks had approximately \$1,545,000 in revenue notes and bonds and other debt outstanding compared to approximately \$1,011,000 at June 30, 2006, as shown below.

Outstanding Debt at Year End (Expressed in Thousands)		
	June 30,	
	2007	2006
Revenue notes	\$ 760	905
Revenue bonds	696	-
Compensated absences	89	106
Total	\$ 1,545	1,011

Additional information about the Waterworks long-term debt is presented in note 5 to the financial statements.

ECONOMIC FACTORS BEARING ON THE WATERWORKS FUTURE

Several economic factors affected decisions made by the Waterworks in setting its fiscal 2008 budget, including completion of various projects. These various projects consist of a new ground storage tank, repair of claricones and aerator at the treatment plant, extension of 10" transmission mains to the north end of town, addition of a new 6" main in NW Chariton, and modifications to clearwell at the plant to comply with federal regulations.

In fiscal year 2008, the Waterworks had approximately \$200,000 in uncompleted construction projects. These contracts are for water tower repair, water main replacement and water plant improvements. These projects will be paid for with a State Revolving Fund loan from the Iowa Department of Natural Resources, and from cash reserves.

CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Waterworks finances to show the Waterworks accountability for the money it receives. If you have any questions or require additional information please contact the Waterworks Superintendent, 101 Albia Road, Box 861, Chariton, Iowa 50049.

Basic Financial Statements

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Business Type Activities</u>
Assets	
Cash and pooled investments	\$ 452,082
Receivables, net of allowance for uncollectible amounts (\$10,641)	
Accounts, consumers and other	136,105
Estimated unbilled usage	59,969
Accrued interest	302
Inventories	7,662
Prepaid Insurance	18,108
Restricted assets	
Cash and pooled investments	454,617
Cost of bond issue (net of accumulated amortization)	25,805
Capital assets (net of accumulated depreciation)	4,203,219
Total assets	<u>5,357,869</u>
Liabilities	
Accounts payable	102,252
Accrued payroll	5,759
Accrued interest payable	4,871
Long - term liabilities:	
Portion due or payable within one year:	
Revenue notes payable	155,000
Revenue bonds payable	35,000
Compensated absences	88,260
Portion due or payable after one year:	
Revenue notes payable	605,000
Revenue bonds payable	661,424
Total liabilities	<u>1,657,566</u>
Net Assets	
Invested in capital assets, net of related debt	2,746,795
Restricted for:	
Meter deposits	89,331
Reserve	195,000
Revenue bond retirement	23,777
Funded replacement	146,509
Unrestricted	498,891
Total net assets	<u>\$ 3,700,303</u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

Exhibit B

Year ended June 30, 2007

Operating revenues:	
Charges for service:	
Water	\$ 1,145,442
Customer service and sale of materials	<u>5,208</u>
Total operating revenues	<u>1,150,650</u>
Operating expenses:	
Business type activities:	
Plant operation	275,657
Distribution operation	208,810
Accounting and collection	168,440
Administration	96,788
Repairs and minor equipment	31,275
Depreciation and amortization	<u>268,401</u>
Total operating expenses	<u>1,049,371</u>
Operating income	<u>101,279</u>
Nonoperating revenues (expenses):	
Interest income	38,840
Interest expense	(59,131)
Miscellaneous	<u>41,987</u>
Total nonoperating revenues (expenses)	<u>21,696</u>
Change in net assets	122,975
Net assets, beginning of year	<u>3,577,328</u>
Net assets, end of year	<u>\$ 3,700,303</u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

Exhibit C

STATEMENT OF CASH FLOWS

Year ended June 30, 2007

Cash flows from operating activities:	
Cash received from customers and users	\$ 1,120,907
Cash received from other revenues	5,208
Cash paid for personal services	(347,029)
Cash paid to suppliers	(391,212)
Net cash provided by operating activities	<u>387,874</u>
Cash flows from noncapital financing activities:	
Miscellaneous income	<u>41,987</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(742,457)
Cost of bond issue	(5,491)
Proceeds of revenue bonds	723,424
Principal paid on revenue notes and bonds	(180,000)
Interest paid on revenue bonds	(57,913)
Net cash used for capital and related financing activities	<u>(262,437)</u>
Cash flows from investing activities:	
Interest on investments	<u>39,243</u>
Net increase in cash and cash equivalents	206,667
Cash and cash equivalents at beginning of year	<u>700,032</u>
Cash and cash equivalents at end of year	<u>\$ 906,699</u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

Exhibit C

STATEMENT OF CASH FLOWS

Year ended June 30, 2007

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 101,279
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	268,401
(Increase) in receivables	(24,535)
Decrease in inventories	539
(Increase) in prepaid insurance	(853)
Increase in accounts payable, accrued payroll and compensated absences	43,043
Net cash provided by operating activities	\$ <u><u>387,874</u></u>

Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:

Current assets:	
Cash and pooled investments	\$ 452,082
Restricted assets:	
Cash and pooled investments:	
Meter deposits	89,331
Reserve	195,000
Revenue bond retirement	23,777
Funded replacement	146,509
Cash and cash equivalents at year end	\$ <u><u>906,699</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District incurred \$8,000 of bond issue costs which were added directly to the loan balance by the lender.

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

The Chariton Municipal Waterworks is a component unit of the City of Chariton, Iowa, as determined by the criteria specified by the Governmental Accounting Standards Board. The Waterworks operates under a trustee form of government provided by the Code of Iowa. A three-member board of trustees is appointed by the City Council of Chariton to six year staggered terms. The Waterworks provides water service to residents, businesses and industry in Chariton.

The financial statements of the Chariton Municipal Waterworks have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Chariton Municipal Waterworks has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Waterworks 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 Waterworks are such that exclusion would cause the Waterworks 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 Waterworks 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 Waterworks. These financial statements present the Chariton Municipal Waterworks and there are no component units to be presented. The Waterworks is legally separate, but financially accountable to the City of Chariton. The Chariton City Council appoints the board and the legal budget is subject to approval by the City Council.

B. Basis of Presentation

Proprietary Fund Financial Statements – The Statement of Net Assets report information on all of the nonfiduciary activities of the Waterworks. The business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Waterworks nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions, enabling legislation or through Board of Trustee action.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The accounts of the Waterworks are organized on the basis of funds. The operations are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The water accounts are classified in the Enterprise Fund. The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The proprietary fund 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 satisfied.

The proprietary funds of the Waterworks apply 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.

Proprietary funds distinguish 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the Waterworks Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Waterworks maintains its financial records on the cash basis. The financial statements of the Waterworks are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Waterworks funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories - Inventories are valued at cost using the first-in / first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include meter deposits restricted for application to unpaid customer accounts or for refund to customers, a reserve fund and a funded replacement fund, as required by the revenue note indentures.

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable business type activities columns in the Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Waterworks as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$1,000
Equipment and vehicles	1,000
Infrastructure	1,000

Capital assets of the Waterworks are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Improvements other than buildings	10-50 years
Vehicles	5 years
Equipment	5-10 years
Infrastructure	20-40 years

Compensated Absences – Waterworks employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide fund financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007.

Long-term Liabilities – In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business type activities column in the Statement of Net Assets.

E. Budgets and Budgetary Accounting

The Waterworks adopts a cash basis budget for operating purposes. The Waterworks also submits a cash basis (legal) budget to the City Council for approval in the City’s budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

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.

Note 2. Cash and Pooled 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 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 Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3. Bond Issue Costs

The costs relating to the issuing of the revenue bonds are being amortized over the term of the bonds.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 47,900	-	-	47,900
Construction in progress	338,772	-	338,772	-
Total capital assets not being depreciated	386,672	-	338,772	47,900
Capital assets being depreciated:				
Improvements and buildings	324,452	-	-	324,452
Equipment and vehicles	364,497	20,443	-	384,940
Infrastructure, water network	8,000,397	1,060,786	-	9,061,183
Total capital assets being depreciated	8,689,346	1,081,229	-	9,770,575
Less accumulated depreciation for:				
Improvements and buildings	255,132	21,399	-	276,531
Equipment and vehicles	313,517	25,984	-	339,501
Infrastructure, water network	4,781,720	217,504	-	4,999,224
Total accumulated depreciation	5,350,369	264,887	-	5,615,256
Total capital assets being depreciated, net	3,338,977	816,342	-	4,155,319
Business type activities capital assets, net	\$ 3,725,649	816,342	338,772	4,203,219

Depreciation expense was charged to the business type activities – water fund.

Note 5. Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance			Balance End of Year	Due Within one Year
	Beginning of Year	Increases	Decreases		
Business type activities:					
Revenue notes	\$ 905,000	-	145,000	760,000	155,000
Revenue bonds	-	731,424	35,000	696,424	35,000
Compensated absences	106,055	-	17,795	88,260	88,260
Total	<u>\$1,011,055</u>	<u>731,424</u>	<u>197,795</u>	<u>1,544,684</u>	<u>278,260</u>

Revenue Notes Payable

Annual debt service requirements to maturity for revenue notes which were issued to finance water system improvements are as follows:

Year Ending June 30,	1992 Issue			1998 Issue			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2008	6.50%	\$ 50,000	\$ 3,250	4.45%	\$ 105,000	\$ 33,258	\$ 155,000	\$ 36,508
2009				4.60%	110,000	28,533	110,000	28,533
2010				4.65%	115,000	23,473	115,000	23,473
2011				4.70%	120,000	18,125	120,000	18,125
2012				4.75%	125,000	12,485	125,000	12,485
2013				4.85%	135,000	6,547	135,000	6,547
Total		<u>\$ 50,000</u>	<u>\$ 3,250</u>		<u>\$ 710,000</u>	<u>\$ 122,421</u>	<u>\$ 760,000</u>	<u>\$ 125,671</u>

The resolution providing for the issuance of the 1992 revenue notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the Waterworks and the bondholders hold a lien on the future earnings.
- (B) \$45,000 will be set aside in a "Reserve Fund".
- (C) A sum of 1/6 of the interest coming due on the next succeeding interest payment date plus 1/12 of the next succeeding principal payment date shall be paid into a "Sinking Fund".
- (D) \$850 per month will be deposited to an "Improvement and Extension Fund" until a sum of \$50,000 is accumulated.

The resolution providing for the issuance of the 1998 revenue notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the Waterworks and the bondholders hold a lien on the future earnings.
- (B) \$140,000 will be set aside in a "Reserve Fund".
- (C) A sum of 1/6 of the interest coming due on the next succeeding interest payment date plus 1/12 of the next succeeding principal payment date shall be paid into a "Sinking Fund".

Note 5. Changes in Long-Term Liabilities (continued)

Revenue Bonds Payable

Annual debt service requirements to maturity for revenue bonds which were issued to finance water system improvements are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2008	3.00%	\$ 35,000	\$ 20,893	\$ 55,893
2009	3.00%	36,000	19,843	55,843
2010	3.00%	36,000	18,763	54,763
2011	3.00%	37,000	17,683	54,683
2012	3.00%	37,000	16,573	53,573
2013-2017	3.00%	195,000	65,795	260,795
2018-2022	3.00%	210,000	35,645	245,645
2023-2025	3.00%	110,424	5,979	116,403
Total		\$ 696,424	\$ 201,174	\$ 897,598

On August 7, 2006, the Waterworks entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$800,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The Waterworks will receive disbursements from the Trustee upon request to reimburse the Waterworks for the costs as they are incurred. At June 30, 2007, the Waterworks had drawn \$731,424 of the \$800,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$68,576 held in trust which the Waterworks will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2007 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks. Although the Waterworks is still drawing funds on the water revenue bonds, a formal repayment schedule has been adopted for the debt.

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

- (A) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (B) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (C) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (D) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Note 6. Interest Cost

It is the Waterworks policy to capitalize interest cost on construction in progress to the extent such construction is capitalized on the statement of net assets. For the year ended June 30, 2007, the Waterworks incurred total interest cost of \$59,131 and no interest costs were capitalized.

Note 7. Pension and Retirement Benefits

The 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 salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Waterworks contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$14,671, \$14,436 and \$14,984 respectively, equal to the required contributions for each year.

Note 8. Risk Management

The Chariton 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 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.

Note 9. Commitments/Subsequent Event

The Waterworks has entered into written contracts for various construction projects. At June 30, 2007, the uncompleted contract amounts totaled approximately \$200,000. These amounts will be paid as work on the projects progresses. It is anticipated these projects will be completed in fiscal year 2008.

The Waterworks was awarded an \$800,000 State Revolving Fund loan from the Iowa Department of Natural Resources. As of June 30, 2007, approximately \$68,000 remains to be drawn in relation to this loan. It is expected that this money will be drawn in fiscal year 2008.

In fiscal year 2008, the Waterworks was fined \$1,500 by the Iowa Department of Natural Resources for the failure to address water quality issues. Also, additional fines may be assessed by the Iowa Department of Natural Resources in relation to additional water quality issues; however, the Waterworks believes the amount of additional fines will not be that material.

Required Supplementary Information

CHARITON MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2007

	Proprietary Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 39,243	5,200	5,200	34,043
Charges for service	1,126,115	1,066,985	1,136,985	(10,870)
Miscellaneous	41,987	29,965	54,965	(12,978)
Total receipts	1,207,345	1,102,150	1,197,150	10,195
Disbursements:				
Business type activities	1,724,102	1,102,150	1,997,500	273,398
Total disbursements	1,724,102	1,102,150	1,997,500	273,398
Excess (deficiency) of receipts over over (under) disbursements	(516,757)	-	(800,350)	283,593
Other financing sources, net	723,424	-	800,000	(76,576)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	206,667	-	(350)	207,017
Balances beginning of year	700,032	-	-	700,032
Balances end of year	\$ 906,699	-	(350)	907,049

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2007

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,207,345	24,132	1,231,477
Expenses	1,724,102	(615,600)	1,108,502
Net	(516,757)	639,732	122,975
Other financing sources, net	723,424	(723,424)	-
Beginning net assets	700,032	2,877,296	3,577,328
Ending net assets	\$ 906,699	2,793,604	3,700,303

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Year ended June 30, 2007

The Chariton 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. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. The budget approved by the City Council includes the budget of the Waterworks.

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 \$895,350. The budget amendment is reflected in the final budgeted amounts.

During the fiscal year ended June 30, 2007, Waterworks disbursements did not exceed the amounts budgeted.

Other Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

SCHEDULE OF OPERATING EXPENSES

Year ended June 30, 2007

Plant Operation	
Salaries	\$ 85,787
Power and propane	42,163
Chemicals	124,426
Supplies	5,397
Telephone	828
Maintenance materials and labor	16,085
Other expenses	971
Total plant operation	<u>\$ 275,657</u>
Distribution Operation	
Salaries	\$ 87,073
Vehicle maintenance	23,632
Insurance	33,022
Supplies	5,588
Utilities	4,692
Telephone	2,047
Maintenance material and labor	51,333
Other expenses	1,423
Total distribution operation	<u>\$ 208,810</u>
Accounting and Collection	
Salaries	\$ 81,331
Meter reading	8,700
Office supplies	3,658
Sales tax	56,571
Postage	9,628
Telephone	2,360
Utilities	3,858
Other expenses	2,334
Total accounting and collection	<u>\$ 168,440</u>
Administration	
Employee benefits	\$ 80,802
Audit and filing fee	2,881
Safety, schools, miscellaneous	11,180
Building expense	1,925
Total administration	<u>\$ 96,788</u>
Repairs and Minor Equipment	
Plant improvements	\$ 28,439
Office equipment	1,483
Distribution improvements	1,353
Total repairs and minor equipment	<u>\$ 31,275</u>
Depreciation and Amortization	
Depreciation	\$ 264,887
Amortization	3,514
Total depreciation and amortization	<u>\$ 268,401</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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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
Chariton Municipal Waterworks

We have audited the accompanying financial statements of the business type activities of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the Waterworks basic financial statements listed in the table of contents and have issued our report thereon dated October 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 Chariton Municipal Waterworks internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Chariton Municipal Waterworks internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chariton 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

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 Chariton Municipal Waterworks 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 Chariton Municipal Waterworks financial statements that is more than inconsequential will not be prevented or detected by Chariton Municipal Waterworks internal control. We consider the deficiencies in internal control described in Part I of 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 a material misstatement of the financial statements will not be prevented or detected by Chariton Municipal Waterworks 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, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chariton Municipal Waterworks financial statements are 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 non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks 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 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.

Chariton 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 Waterworks responses, we did not audit Chariton Municipal Waterworks responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the Chariton Municipal Waterworks and other parties to whom the Chariton 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 Chariton 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.

Peak & Gerdes, LLP
Certified Public Accountants

October 30, 2007

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

I-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

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

Response – We will consider this.

Conclusion – Response acknowledged. The Waterworks could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NONCOMPLIANCE

No matters were reported.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

II-A-07 Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks. Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted in the business type activities function of the Chariton Municipal Waterworks.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

II-D-07 Business Transactions - Business transactions between the Waterworks and Waterworks officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son owns Savage Dirt Works	Dirt work	\$ 2,500
Mark Savage, Employee, Brother owns ARS Construction	Construction, hauling	\$ 60,473

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions may represent conflicts of interest since total transactions with each individual were greater than \$1,500 during the fiscal year.

Recommendation – The Waterworks consult with their Attorney on the above to determine a proper resolution of the matter.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-E-07 Bond Coverage - Surety bond coverage of 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.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2007

- II-F-07 Board of Trustee Minutes - Except as noted below, no transactions were found that we believe should have been approved in the trustee minutes but were not.

Two special meetings were identified for which no minutes of the proceedings could be located. In addition, these minute proceedings were not published in the newspaper. An instance was noted where a claim payable to an engineer was not documented as approved in the Board minutes, or published in the newspaper. In one case, the yearly salary amount as published in the newspaper was incorrect. All of this is required pursuant to Chapter 388 of the Code of Iowa.

Recommendation – The Waterworks implement procedures to ensure compliance with Chapter 388 of the Code of Iowa in relation to meetings, publications, and approval of invoices.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- II-G-07 Deposits and Investments - The Waterworks investment policy referred to an outdated section of the Code of Iowa. However, during the fiscal year this was changed to refer to Chapter 12B of the Code of Iowa.

- II-H-07 Revenue Bonds - The Waterworks has complied with the provisions of the revenue bond and note indentures.

- II-I-07 Delinquent Accounts – For delinquent water service accounts, the Waterworks does not turn over the accounts to the County Treasurer for collection.

Recommendation – The Waterworks consider turning over the delinquent accounts to the County Treasurer for collection.

Response – We will review this issue.

Conclusion – Response accepted.

- II-J-07 Telephone – The Waterworks provides Waterworks-owned cellular phones to certain employees for Waterworks business. However, the Waterworks does not have a specific policy addressing the use of Waterworks-owned cellular phones.

Recommendation – The Waterworks should establish a policy to address the use of Waterworks-owned cellular phones, including restricting use by employees of the Waterworks to Waterworks related business.

Response – We will review this and take action as necessary.

Conclusion - Response accepted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2007

II-K-07 Compliance Issues – Chapters 384.95 to 384.103 of the Code of Iowa requires that for public improvements which cost in excess of \$25,000, an advertisement for sealed bids and a public hearing be held in the time frame as provided in Chapter 362.3 of the Code of Iowa. In one case, it appears that these requirements were not met.

Recommendation – For public improvement projects which cost in excess of \$25,000, the Waterworks implement procedures to ensure the requirements as noted per the Iowa Code are met.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-L-07 Interest – In December, 2006, the Waterworks had an average of \$120,000 in a checking account at the bank. In December, 2006, the checking account was earning interest at a rate of .50%. Several thousand dollars of additional bank interest could be earned if Waterworks funds were invested in higher yielding investments. For example, in December, 2006, interest rates on liquid funds invested in the Iowa Public Agency Investment Trust were earning over 4.5%.

Recommendation – The Waterworks be more aggressive in investing excess funds in higher yielding investments.

Response – In January 2007, we had a large project which took this cash. As a result, we did not invest this additional money since we had large purchases to pay for in January 2007.

Conclusion – Response accepted.

II-M-07 Waterworks Procedures – The Waterworks does not have a working meter at the plant which records gallons of water pumped. As a result, the Waterworks is unable to compare the number of gallons of water pumped with the number of gallons of water billed. Therefore, the Waterworks is unable to identify any unusual changes, such as large water loss amounts.

For two vendors, the engineer did not complete a change order extending the time of performance, or assess liquidated damages on the construction contractor when the project exceeded the time of performance.

Recommendation – The Waterworks implement procedures to compare the number of gallons of water pumped to the number of gallons of water billed, and follow up on any unusual variances. In addition, the Waterworks should either extend the time of performance on the construction contracts, or assess liquidated damages on contracts which exceeded the time of performance.

Response – We will implement these recommendations.

Conclusion – Response accepted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2007

II-N-07 Water Rates – Section 384.83 and 384.84 of the Code of Iowa requires that utility rates must be established by resolution of the Board of Trustees, published in the same manner as an ordinance. For one month, the Waterworks gave all customers a 10 percent discount on their water bill. However, this was only approved as a Board vote, and not by resolution of the Board of Trustees. In addition, this change in rates was not published in the same manner as an ordinance.

Recommendation – The Waterworks follow the above Code sections on future utility rate changes.

Response – We will implement this recommendation.

Conclusion – Response accepted.