

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk**

**Independent Auditor's Report  
Management's Discussion and Analysis  
Financial Statements and Supplemental Information  
Independent Auditor's Reports on Compliance and Internal Control  
Schedule of Findings**

**June 30, 2008**

## C o n t e n t s

	<b>Page</b>
<b>Board of Trustees</b>	1
<b>Independent Auditor's Report</b>	2 - 3
<b>Management's Discussion and Analysis</b>	4 - 9
<b>Financial Statements</b>	
Statement of Net Assets - Proprietary Fund	10 - 11
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	12
Statement of Cash Flows - Proprietary Fund	13
Notes to Financial Statements	14 - 21
<b>Required Supplementary Information</b>	
Comparison of Revenues and Expenses - Actual to Budget	22
Notes to Required Supplementary Information - Actual to Budget	23
<b>Supplemental Information</b>	
Supplementary Schedule of Expenses	24 - 25
Schedule of Changes in Assets Restricted for Landfill, Sewer and Garbage Charges	26
Schedule of Changes in Assets Restricted for Water Revenue Capital Loan Notes Debt Service	27
<b>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></b>	28 - 29
<b>Schedule of Findings</b>	30 - 32

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Board of Trustees  
June 30, 2008**

---

<b><u>Trustee</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Edward Johnstone	Trustee	November 1, 2011
Bruce Brandt	Trustee	November 1, 2013
John Beaird	Trustee	November 1, 2009
Mike Hausch	Trustee	November 1, 2011
Dave Bogner	Trustee	November 1, 2009
Bill Cole	Manager	
Shari Dunagan	Office Manager	



214 North Fourth Street PO Box 547 Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

## Independent Auditor's Report

Officials of  
Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Keokuk, Iowa

We have audited the accompanying statement of net assets of the proprietary fund of the Keokuk Municipal Water Works (Water Works), a Component Unit of the City of Keokuk, as of June 30, 2008, and the related statement of revenues, expenses and changes in fund net assets, and statement of cash flows of its proprietary fund for the year then ended. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America 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 Keokuk Municipal Water Works, a Component Unit of the City of Keokuk, at June 30, 2008, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009 on our consideration of Keokuk Municipal Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing on 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 the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison on pages 4 through 9 and 22 through 23 are not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included on pages 24 through 27 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 audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

*CPA Associates PC*

January 7, 2009

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

The following Management Discussion and Analysis (MD&A) of the Keokuk Municipal Water Works' activities and financial performance provides the reader with an introduction and overview to the financial statements of the Keokuk Municipal Water Works (Water Works) for the fiscal year ended June 30, 2008. The information contained in this MD&A should be considered in conjunction with the Water Works' basic financial statements.

Following this MD&A are the basic financial statements of the Water Works together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

**Financial Operations Highlights**

As a result of this year's operations, assets exceeded liabilities by \$19.1 million (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$17.8 million. The net assets increased by \$1,276,923 or 7.2%.

Total net assets are comprised of the following:

- Net assets invested in capital assets (e.g., main extensions, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets is \$12,004,277. This balance represents resources allocated to capital assets. These capital assets, less accumulated depreciation, are shown at depreciated cost of \$26,029,277.
- Restricted net assets of \$2,016,960 represent resources that are subject to external restrictions such as grantors, laws, debt covenants or regulations.
- Unrestricted net assets of \$5,032,329 are represent resources can be used at the discretion of management and the Board of Trustees.

During the year revenues increased \$851,800 or 15.25%, while operating expenses increased \$469,700 or 10.68%.

Net non-operating expenses increased \$7,500 or 2.60% and are primarily attributable to the decrease in interest income.

**Using This Annual Report**

The Water Works is governed by a Board of Trustees, appointed by the Mayor and approved by the City Council. The Water Work's is organized as an Enterprise Fund and is a component unit of the City of Keokuk, Iowa. This discussion and analysis is intended to serve as an introduction to the Water Work's 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 Water Works's financial activities.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Using This Annual Report** (continued)

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

The Financial Statements tell how 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 Water Works' budget for the year.

**Financial Position Summary**

Net assets may serve over time as a useful indicator of the Water Works' financial position. The Water Works' net assets exceeded liabilities by \$19.1 million at June 30, 2008, a \$1,276,923 increase from 2007.

A condensed summary of the Water Works' net assets at June 30, 2008 and 2007 is shown below:

	<b>2008</b>	<b>2007</b>
Assets:		
Current, restricted and other assets	\$ 8,196,926	\$ 4,644,648
Capital assets	<u>26,029,277</u>	<u>24,921,630</u>
Total assets	<u>\$ 34,226,203</u>	<u>\$ 29,566,278</u>
Liabilities:		
Current liabilities	\$ 2,057,637	\$ 1,564,635
Long-term debt	<u>13,115,000</u>	<u>10,225,000</u>
Total liabilities	15,172,637	11,789,635
Net Assets:		
Invested in capital assets, net of related debt	12,004,277	15,072,457
Restricted funds	2,016,960	1,801,855
Unrestricted	<u>5,032,329</u>	<u>902,331</u>
Total liabilities and net assets	<u>\$ 34,226,203</u>	<u>\$ 29,566,278</u>

The largest portion of the Water Works' net assets each year represents its investment in capital assets (e.g., main extensions, buildings, improvements, and equipment), less any related indebtedness outstanding used to acquire those capital assets.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Summary of Operations and Changes in Net Assets**

	<b>2008</b>	<b>2007</b>
Net operating revenues	\$ 6,436,230	\$ 5,584,443
Net operating expenses	<u>4,867,431</u>	<u>4,397,746</u>
Net operating income	<u>1,568,799</u>	<u>1,186,697</u>
Non-operating income and expenses:		
Interest income	147,584	170,940
Interest expense and amortization	<u>(439,460)</u>	<u>(455,305)</u>
Net non-operating income (expense)	<u>(291,876)</u>	<u>(284,365)</u>
Increase in net assets	<u>\$ 1,276,923</u>	<u>\$ 902,332</u>

**Revenues**

A summary of revenues for the year ended June 30, 2008, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>2008</u> <u>Amount</u>	<u>% of</u> <u>Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>from Prior</u> <u>Year</u>	<u>% Increase</u> <u>(Decrease)</u>
Operating				
Metered sales	\$ 6,147,127	93.37	\$ 657,515	11.98
Flat rate sales	2,440	0.03	2,087	591.22
Miscellaneous charges	77,723	1.18	21,769	38.91
Service charges and penalties	<u>208,940</u>	<u>3.18</u>	<u>170,416</u>	81.56
Total operating	6,436,230	97.76	851,787	15.25
Non-operating income				
Interest income	<u>147,584</u>	<u>2.24</u>	<u>(23,356)</u>	(13.66)
Total revenues	<u>\$ 6,583,814</u>	<u>100.00</u>	<u>\$ 828,431</u>	14.39

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Expenses**

A summary of expenses for the year ended June 30, 2008, and the amount and percentage change in relation to prior year amounts is as follows:

	2008 <u>Amount</u>	% of <u>Total</u>	Increase (Decrease) from Prior <u>Year</u>	% Increase (Decrease)
<b>Operating</b>				
Operating expenses	\$ 4,027,411	75.89	\$ 458,999	12.86
Depreciation	<u>840,020</u>	<u>15.83</u>	<u>10,686</u>	1.29
Total operating	4,867,431	91.72	469,685	10.68
<b>Non-operating expense</b>				
Interest expense and amortization	<u>439,460</u>	<u>8.28</u>	<u>939,370</u>	206.32
Total expenses	<u>\$ 5,306,891</u>	<u>100.00</u>	<u>\$ 1,409,055</u>	29.03

The increase in expenses during the fiscal year is primarily attributable to increase in chemical expenses for the plant, increases in administrative costs related to engineering and insurance and increase in payment in lieu of taxes remitted to the City of Keokuk.

**Summary of Cash Flow Activities**

The following shows a summary of the major sources and uses of cash and cash equivalents for the years ended June 30, 2008 and 2007. Cash equivalents are considered to be cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	<b>2008</b>	<b>2007</b>
Net cash provided by operating activities	\$ 2,642,398	\$ 2,016,752
Net cash provided (used) by investing activities	(1,248,477)	718,344
Net cash provided (used) by capital and related financing activities	<u>723,739</u>	<u>(2,188,201)</u>
Net increase in cash and cash equivalents	2,117,660	546,895
Cash and cash equivalents, beginning of year	<u>910,885</u>	<u>363,990</u>
Cash and cash equivalents, end of year	<u>\$ 3,028,545</u>	<u>\$ 910,885</u>

**Financial Statements**

The Water Works' financial statements are prepared on an accrual basis in accordance with accounting principals generally accepted in the United States of America promulgated by the Government Accounting Standards Board (GASB). The Water Works is structured as a single enterprise fund with revenues recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. See the notes to the financial statements for a summary of the Water Works' significant accounting policies.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Long-term debt**

At June 30, 2008, the Water Works had \$14,025,000 in debt outstanding. This debt is from refinancing of the 1995 and 1996 Bonds in April 2004 and January 2005. Additionally, the Water Works issued additional debt of \$3,800,000 during the current year to fund capital projects related to new water filters.

**Capital Acquisitions and Construction Activities**

At June 30, 2008, the Water Works had \$39,716,099 in capital assets. Capital expenditures totaled \$1,914,884, an increase of 65% over 2007. A summary of projects follows.

Distribution System:

- High Street 13th to 18th
- South 14th Street
- North 16th Street
- Concert Street
- Purchase of Meters

Water Treatment Plant:

- Additional filtration capacity
- Electrical
- Sludge Disposal Equipment

Vehicles:

- 2007 F150 Ford Truck
- Trailer

**Economic Factors**

The Keokuk Municipal Water Works 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 Water Works officials. Some of the realities that may potentially become challenges for the Water Works to meet are:

- Facilities at the Water Works require constant maintenance and upkeep.
- Water regulations continue to change, in order to meet these new standards the Water Works must constantly upgrade and change, which could be a financial challenge.
- Due to the age of the distribution system, the Keokuk Municipal Water Works repair and replacement of mains is on-going.
- Closing of businesses and declining population directly affect the income of the Keokuk Municipal Water Works, especially any change with its major customer as disclosed in the Notes to the Financial Statements.

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

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Request for Information**

This financial report is designed to provide a general overview of the Water Work's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Manager, Keokuk Municipal Water Works, 20 North Fourth Street, Keokuk, Iowa 52632.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Statement of Net Assets - Proprietary Fund  
June 30, 2008**

---

<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,390,537
Certificates of deposit	2,280,573
Accrued interest receivable	39,192
Accounts receivable	453,876
Prepaid expenses	<u>67,340</u>
Total current assets	<u>4,231,518</u>
<b>Restricted Assets</b>	
Sewer, garbage & landfill:	
Cash and cash equivalents	136,016
Accounts receivable	<u>175,677</u>
	<u>311,693</u>
Consumers water meter deposits: Cash and cash equivalents	<u>145,120</u>
Consumers sewer meter deposits:	
Cash and cash equivalents	7,176
Certificates of deposit	<u>68,000</u>
	<u>75,176</u>
Sinking fund: Cash and cash equivalents	<u>333,385</u>
Reserve fund:	
Guaranteed investment contracts	737,750
Cash and cash equivalents	215,105
Certificates of deposit	<u>480,720</u>
	<u>1,433,575</u>
Improvement fund: Certificates of deposit	<u>250,000</u>
General regulatory and system improvement:	
Cash and cash equivalents	801,206
Certificates of deposit	<u>400,000</u>
	<u>1,201,206</u>
<b>Property, Plant and Equipment</b>	
Property, plant and equipment, at cost	39,716,099
Less accumulated depreciation	<u>(13,686,822)</u>
	<u>26,029,277</u>
<b>Other assets</b>	
Unamortized bond issuance costs, net of accumulated amortization of \$69,515	<u>215,253</u>
Total assets	<u>\$ 34,226,203</u>

See notes to financial statements.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Statement of Net Assets - Proprietary Fund  
June 30, 2008**

---

<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 232,076
State sales tax payable	3,992
Accrued salaries and vacation	279,502
Accrued interest payable	100,078
Current portion long-term debt	910,000
Due to city - sewer & garbage charges	308,155
Due to GRRW - landfill charges	3,538
Consumer water meter deposits	145,120
Consumer sewer meter deposits	<u>75,176</u>
Total current liabilities	<u>2,057,637</u>
<b>Long-term Debt, net of current portion</b>	<u>13,115,000</u>
Total liabilities	<u>15,172,637</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	12,004,277
Restricted	
Sinking fund	333,385
Reserve fund	1,433,575
Improvement fund	250,000
Unrestricted	<u>5,032,329</u>
Total net assets	<u>19,053,566</u>
Total liabilities and net assets	<u>\$ 34,226,203</u>

See notes to financial statements.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Year Ended June 30, 2008**

---

<b>Operating Revenues</b>	
Metered sales	\$ 6,147,127
Flat rate sales	2,440
Miscellaneous charges	77,723
Service charges and penalties	<u>208,940</u>
Total operating revenues	<u>6,436,230</u>
<b>Operating Expenses</b>	
Operating expenses	4,027,411
Depreciation	<u>840,020</u>
Total operating expenses	<u>4,867,431</u>
Net operating income	<u>1,568,799</u>
<b>Non-operating revenues (expenses)</b>	
Interest income	147,584
Interest expense	(408,565)
Amortization	<u>(30,895)</u>
Total non-operating expenses	<u>(291,876)</u>
Change in net assets	1,276,923
<b>Net assets, beginning of year</b>	<u>17,776,643</u>
<b>Net assets, end of year</b>	<u>\$ 19,053,566</u>

See notes to financial statements.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended June 30, 2008**

---

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 6,175,155
Receipts from service charges and miscellaneous	271,471
Meter deposits received, net	11,892
Payments to suppliers	(2,740,123)
Payments to employees	(875,997)
Payments for interfund services	<u>(200,000)</u>
Net cash provided by operating activities	<u>2,642,398</u>
 <b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	(1,914,884)
Principal payments on long-term debt	(680,000)
Principal borrowings on long-term debt	3,800,000
Interest payments on long-term debt	(412,877)
Prepaid debt issuance costs	<u>(68,500)</u>
Net cash provided by capital and related financing activities	<u>723,739</u>
 <b>Cash Flows from Investing Activities</b>	
Purchases of certificates of deposit	(3,479,293)
Redemptions of certificates of deposit	2,071,120
Interest income	<u>159,696</u>
Net cash used by investing activities	<u>(1,248,477)</u>
 Net increase in cash and cash equivalents	 2,117,660
 <b>Cash and cash equivalents, beginning of year</b>	 <u>910,885</u>
 <b>Cash and cash equivalents, end of year</b>	 <u>\$ 3,028,545</u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 1,568,799
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	840,020
Changes in assets and liabilities:	
Receivables and prepaids	(952)
Accounts payable and accrued expenses	<u>234,531</u>
Net cash provided by operating activities	<u>\$ 2,642,398</u>
 <b>Supplemental Disclosure of Noncash Capital and Related Financing Activities</b>	
Equipment purchases financed through accounts payable	<u>\$ 32,783</u>

See notes to financial statements.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

---

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

The Keokuk Municipal Water Works (Water Works) currently provides water for the residential and commercial needs of locations within the City of Keokuk, Iowa. The governing body of the Water Works is a Board of Trustees consisting of five members appointed by the City of Keokuk's Mayor and approved by the City of Keokuk's Council. The Board of Trustees has the responsibility for designated management and is accountable for fiscal matters relating to the Water Works.

Reporting Entity

For financial reporting purposes, the Water Works has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Water Works has 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 (GASB) 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 entity 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 entity.

Based on the above criteria, there are no agencies or entities which should be combined with the financial statements of the Water Works. However, based on these criteria, the Water Works is a component unit of the City of Keokuk for financial reporting purposes. The City of Keokuk has financial accountability for the Water Works because it appoints a voting majority of the Water Works' Board of Trustees and provides financial benefit to the Water Works.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Water Works are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Water Works' reporting entity applies all relevant GASB pronouncements. The proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounts of the Water Works are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The transactions of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

---

**Note 1. Summary of Significant Accounting Policies (continued)**

The accounts of the Water Works are primarily organized as an enterprise fund, which is a proprietary fund type. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that 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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The proprietary funds are accounted for using the flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets. Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for services or rent. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash and Cash Equivalents

The Water Works considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the time the service is billed. Unbilled water 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.

The Water Works grants credit to customers, substantially all of whom are located in Keokuk, Iowa. The risk of loss on 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 Water Works' abilities to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible; therefore, no allowance for uncollectible accounts has been recorded.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

**Note 1. Summary of Significant Accounting Policies (continued)**

Restricted Assets

Restricted assets consist of cash and cash equivalents, certificates of deposit, guaranteed investment contracts and accounts receivable. These funds are set aside for sewer, garbage and landfill fees collected for others, water and sewer meter deposits, bond sinking, bond improvement and bond reserve accounts. Water Works carries its investment in the guaranteed investment contract at cost since it is a nonparticipating contract were the interest rate is fixed.

Property and Equipment

Property and equipment is stated at cost.

Depreciation expense for the year ended June 30, 2008 is \$840,020. Depreciation of property and equipment is computed by the straight line method at rates based on the estimated useful lives disclosed below.

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:

	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u>	<u>Estimated Useful Lives</u>
Land	\$ 364,766	\$ 3,000	\$ -	\$ 367,766	--
Building	240,506	-	-	240,506	10-30
Plant & Tanks	30,656,026	1,758,913	-	32,414,939	10-50
Distribution System, Meters & Hydrants	5,434,371	165,231	-	5,599,602	15-80
Machinery & Equipment	<u>1,072,763</u>	<u>20,523</u>	<u>-</u>	<u>1,093,286</u>	5-20
	<u>\$ 37,768,432</u>	<u>\$ 1,947,667</u>	<u>\$ -</u>	<u>\$ 39,716,099</u>	

Amortization of Water Revenue Capital Loan Note Fees

During the years ended June 30, 2004, 2005 and 2008, the Water Works incurred costs of \$284,768 in connection with the 2004A, 2005A and 2008 Series 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. The amortization expense for the year ended June 30, 2008 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 in effect at June 30, 2008.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

---

**Note 1. Summary of Significant Accounting Policies (continued)**

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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. 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.

Plan members are required to contribute 3.90% of their annual salary and the Water Works is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Water Works' contribution to IPERS for the year ended June 30, 2008, was \$50,291, which was equal to the required contribution.

**Note 3. Deposits**

The Water Works' deposits at June 30, 2008 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 and the Treasurer of the State of Iowa; 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.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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

On April 1, 2004 the 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 1.90% 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 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 2.65% 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.

On June 25, 2008 the Water Works issued \$3,800,000 in Water Revenue Capital Loan Notes. These notes mature semi-annually beginning April 1, 2009 through April 1, 2023 with interest rates from 2.75% to 4.30%. Notes maturing after April 1, 2015 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 for Water Revenue Capital Loan Notes are as follows:

Year Ending June 30,	\$7,000,000 Water Revenue Refunding Capital Loan Notes Series 2004A		\$4,505,000 Water Revenue Refunding Capital Loan Notes Series 2005A		\$3,800,000 Water Revenue Capital Loan Notes Series 2008		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 430,000	\$ 227,114	\$ 270,000	\$ 168,402	\$ 210,000	\$ 107,989	\$ 910,000	\$ 503,505
2010	445,000	215,920	275,000	159,493	200,000	133,680	920,000	509,093
2011	455,000	203,219	285,000	149,778	210,000	127,908	950,000	480,905
2012	470,000	189,010	295,000	139,137	215,000	121,634	980,000	449,781
2013	485,000	173,474	310,000	127,432	220,000	114,725	1,015,000	415,631
2014-2018	2,700,000	583,396	1,750,000	427,600	1,240,000	448,298	5,690,000	1,459,294
2019-2023	<u>1,245,000</u>	<u>70,237</u>	<u>810,000</u>	<u>51,104</u>	<u>1,505,000</u>	<u>179,949</u>	<u>3,560,000</u>	<u>301,290</u>
	<u>\$ 6,230,000</u>	<u>\$ 1,662,370</u>	<u>\$ 3,995,000</u>	<u>\$ 1,222,946</u>	<u>\$ 3,800,000</u>	<u>\$ 1,234,183</u>	<u>\$ 14,025,000</u>	<u>\$ 4,119,499</u>

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

---

**Note 4. Water Revenue Capital Loan Notes Payable (continued)**

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

The Sinking Fund requirement is an amount on deposit equal to the monthly amount of the next principal and interest payment.

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, (b) 10% of the stated principal of the notes or (c) 125% of the average annual debt service on the notes. Amounts on deposit in the Reserve Fund shall be 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 use the 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 Water Works is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial liability insurance. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**Note 6. Major Customers**

Water sales to one major customer was \$4,479,050 for the year ended June 30, 2008, representing approximately 70% of the total operating revenue for the year. At June 30, 2008, amounts due from this customer included in accounts receivable were \$236,473.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

---

**Note 7. Related Party Transactions**

The Water Works had business transactions with its employees and an employee's spouse totaling \$11,230 during the year ended June 30, 2008.

**Note 8. Related Organization**

Based on criteria set by the GASB, the Keokuk Municipal Water Works is a component unit of the City of Keokuk for financial reporting purposes. The City of Keokuk has financial accountability for the Water Works under these criteria because it appoints a voting majority of the Water Works' Board of Trustees.

The Water Works provides billing service for sewer and garbage for the City of Keokuk and collects fees for these services. Total fees collected for the year ending June 30, 2008, totaled \$1,514,977. Amounts due to the City as of June 30, 2008 were \$308,155.

The Water Works provides billing service for landfill fees for the Great River Regional Waste (GRRW) and collects fees for these services. Total fees collected for the year ending June 30, 2008, totaled \$87,750. Amounts due to the GRWW as of June 30, 2008 were \$3,538.

The Water Works made a payment in lieu of taxes to the City of Keokuk for \$200,000 for the year ended June 30, 2008.

**Note 9. Commitments**

As of June 30, 2008, Water Works had an option to purchase land for a new water tower site for \$146,000.

**Note 10. Prospective Accounting Change**

The GASB has issued several statements not yet implemented by the Keokuk Municipal Water Works. The statements, which might impact the Keokuk Municipal Water Works, are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Water Works for the fiscal year ending June 30, 2009. This Statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This Statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Water Works for the fiscal year ending June 30, 2009. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities or assets, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

---

**Note 10. Prospective Accounting Change** (continued)

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the Water Works for the fiscal year ending June 30, 2009. This Statement establishes standards for accounting and financial reporting for obligations to address the current or potential detrimental effects of existing pollution.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Required Supplementary Information  
Comparison of Revenues and Expenses - Actual to Budget  
Year Ended June 30, 2008**

	<u>Actual</u>	<u>Budgeted Amounts</u>		Variance: Favorable (Unfavorable)	Net as Percent of <u>Budget</u>
		<u>Original</u>	<u>Final</u>		
Operating revenues					
Metered sales	\$ 6,147,127	\$ 5,645,949	\$ 6,277,949	\$ (130,822)	98 %
Flat rate sales	2,440	4,000	4,000	(1,560)	61 %
Miscellaneous charges	77,723	70,000	70,000	7,723	111 %
Service charges and penalties	<u>208,940</u>	<u>30,000</u>	<u>30,000</u>	<u>178,940</u>	696 %
Total operating revenues	<u>6,436,230</u>	<u>5,749,949</u>	<u>6,381,949</u>	<u>54,281</u>	
Operating expenses					
Operating expenses (Supplementary Schedule of Expenses)	4,027,411	3,975,602	4,790,992	763,581	84 %
Depreciation	<u>840,020</u>	<u>835,234</u>	<u>835,234</u>	<u>(4,786)</u>	101 %
Total operating expenses	<u>4,867,431</u>	<u>4,810,836</u>	<u>5,626,226</u>	<u>758,795</u>	87 %
Operating income	<u>1,568,799</u>	<u>939,113</u>	<u>755,723</u>		
Non-operating income (expense)					
Interest income	147,584	200,000	200,000		
Property, plant and equipment Amortization	(1,914,884)	(920,000)	(979,530)		
Net long-term debt cash receipts (payment)	<u>2,711,435</u>	<u>(1,096,685)</u>	<u>(4,596,685)</u>		
Net non-operating income (expense)	<u>913,240</u>	<u>(1,861,451)</u>	<u>(5,420,981)</u>		
Change in net assets	<u>\$ 2,482,039</u>	<u>\$ (922,338)</u>	<u>\$ (4,665,258)</u>		

The following table is a reconciliation of the actual operating results presented consistent with the basis used to generate the budget to the operating results presented in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Change in net assets, as presented above	\$ 2,482,039
Add: Cash expenditures for property, plant and equipment capitalized under GAAP	1,914,884
Add: Cash expenditures for long-term debt principal payments	680,000
Subtract: Cash receipts for long-term debt proceeds	<u>(3,800,000)</u>
Changes in net assets, as presented in Statement of Revenues, Expenses and Changes in Fund Net Assets	<u>\$ 1,276,923</u>

See accompanying independent auditor's report.

**Keokuk Municipal Water Works**  
**A Component Unit of the City of Keokuk**  
**Required Supplementary Information**  
**Notes to Required Supplementary Information - Actual to Budget**  
**Year Ended June 30, 2008**

---

The Board of Trustees annually adopts a budget on the modified accrual basis following required public notice and hearing on all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or category type. One of the 9 functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursement by category, the legal level of control is at the aggregated function level, not by category. During the year, a budget amendment increased budget revenues by \$632,000 and disbursements by \$4,374,921. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

See accompanying independent auditor's report.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Supplementary Schedule of Expenses  
Year Ended June 30, 2008**

	<u>Actual</u>	<u>Final Budget</u>	<u>Actual Over (Under)Budget</u>
<b>Plant Operations and Maintenance</b>			
Supervision labor	\$ 135,174	\$ 104,589	\$ 30,585
Maintenance labor	74,647	132,592	(57,945)
Operation labor	179,918	209,081	(29,163)
Laboratory labor	49,343	36,290	13,053
Social security and IPERS	56,232	66,186	(9,954)
Health insurance	102,232	101,603	629
Flood control	42,782	301,000	(258,218)
Purification supplies	995,815	1,083,659	(87,844)
Utilities	335,042	443,017	(107,975)
Plant maintenance	213,333	220,000	(6,667)
Supplies	28,028	86,000	(57,972)
Sludge disposal	199,099	301,000	(101,901)
Education and travel	3,237	7,000	(3,763)
Intake	2,196	4,000	(1,804)
Generator expense	<u>5,637</u>	<u>8,000</u>	<u>(2,363)</u>
	<u>2,422,715</u>	<u>3,104,017</u>	<u>(681,302)</u>
<b>Distribution Maintenance</b>			
Supervision labor	53,672	36,800	16,872
Maintenance labor	38,695	43,407	(4,712)
Social security and IPERS	10,649	10,989	(340)
Health insurance	27,848	23,584	4,264
Main leaks	119,495	130,000	(10,505)
Valves	5,126	5,000	126
Maintenance	11,289	26,500	(15,211)
Building maintenance	1,468	1,500	(32)
Supplies	63,954	50,000	13,954
Hydrants	2,468	8,000	(5,532)
Intake	-	5,000	(5,000)
Storage	4,867	5,000	(133)
Education and travel	<u>3,051</u>	<u>4,000</u>	<u>(949)</u>
	<u>342,582</u>	<u>349,780</u>	<u>(7,198)</u>

See accompanying independent auditor's report.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Supplementary Schedule of Expenses  
Year Ended June 30, 2008**

	<u>Actual</u>	<u>Final Budget</u>	<u>Actual Over (Under)Budget</u>
Meter Maintenance			
Supervision labor	\$ 53,687	\$ 43,407	\$ 10,280
Maintenance labor	66,770	61,881	4,889
Meter reading labor	3,741	3,349	392
Social security and IPERS	15,627	14,884	743
Health insurance	37,499	28,176	9,323
Meter parts	2,773	15,000	(12,227)
Shop supplies	24,586	30,000	(5,414)
Education and travel	409	2,500	(2,091)
	<u>205,092</u>	<u>199,197</u>	<u>5,895</u>
Administration			
Management salaries	141,450	113,508	27,942
Office salaries	146,443	142,571	3,872
Board fees	1,800	1,800	-
Postage and shipping	25,281	23,000	2,281
Data processing expense	-	1,000	(1,000)
Office expense	43,961	40,760	3,201
Social security and IPERS	33,856	34,598	(742)
Vehicle maintenance	19,345	21,570	(2,225)
Engineering and legal	281,563	398,632	(117,069)
Health insurance	61,697	61,395	302
Insurance	90,609	81,000	9,609
Education and travel	3,243	5,000	(1,757)
Office building maintenance	7,074	12,164	(5,090)
To city in lieu of taxes	200,000	200,000	-
Bond fees	700	1,000	(300)
	<u>1,057,022</u>	<u>1,137,998</u>	<u>(80,976)</u>
Total operating expenses	<u>\$ 4,027,411</u>	<u>\$ 4,790,992</u>	<u>\$ (763,581)</u>

See accompanying independent auditor's report.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Schedule of Changes in Assets Restricted  
for Landfill, Sewer and Garbage Charges  
Year Ended June 30, 2008**

	<u>Landfill Charges</u>	<u>Sewer Charges</u>	<u>Garbage Charges</u>	<u>Total</u>
Restricted asset balance, June 30, 2007	\$ <u>56,478</u>	\$ <u>123,235</u>	\$ <u>121,578</u>	\$ <u>301,291</u>
Fees				
Landfill service charges	87,750	-	-	87,750
Sewer service charges	-	947,604	-	947,604
Garbage service charges	-	-	567,373	567,373
Less: billing adjustments	<u>(2,519)</u>	<u>(11,508)</u>	<u>(5,975)</u>	<u>(20,002)</u>
	<u>85,231</u>	<u>936,096</u>	<u>561,398</u>	<u>1,582,725</u>
Expenditures				
To the City of Keokuk & GRRW	<u>(138,171)</u>	<u>(884,379)</u>	<u>(549,773)</u>	<u>1,572,323</u>
Restricted asset balance, June 30, 2008	\$ <u>3,538</u>	\$ <u>174,952</u>	\$ <u>133,203</u>	\$ <u>311,693</u>
Restricted asset balance is composed of the following:				
Cash and cash equivalents	\$ 208	\$ 79,708	\$ 56,100	\$ 136,016
Accounts receivable	<u>3,330</u>	<u>95,244</u>	<u>77,103</u>	<u>175,677</u>
	<u>\$ 3,538</u>	<u>\$ 174,952</u>	<u>\$ 133,203</u>	<u>\$ 311,693</u>

See accompanying independent auditor's report.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Schedule of Changes in Assets Restricted for  
Water Revenue Capital Loan Notes Debt Service  
Year Ended June 30, 2008**

	Water Revenue Notes Sinking Fund	Water Revenue Notes Reserve Fund	Water Revenue Notes Improvement Fund	Total
Restricted asset balance, June 30, 2007	\$ <u>333,385</u>	\$ <u>1,218,470</u>	\$ <u>250,000</u>	\$ <u>1,801,855</u>
Receipts				
Transfers from operations	1,092,877	-	-	1,092,877
Transfers from bond proceeds	-	<u>215,105</u>	-	<u>215,105</u>
	<u>1,092,877</u>	<u>215,105</u>	-	<u>1,307,982</u>
Expenditures				
Note principal payments	(680,000)	-	-	(680,000)
Note interest payments	<u>(412,877)</u>	-	-	<u>(412,877)</u>
	<u>(1,092,877)</u>	-	-	<u>(1,092,877)</u>
Restricted asset balance, June 30, 2008	\$ <u>333,385</u>	\$ <u>1,433,575</u>	\$ <u>250,000</u>	\$ <u>2,016,960</u>

See accompanying independent auditor's report.



CPA ASSOCIATES PC  
CERTIFIED PUBLIC ACCOUNTANTS

214 North Fourth Street PO Box 547 Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

**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***

Board of Trustees  
Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Keokuk, Iowa

We have audited the accompanying financial statements of the proprietary fund Keokuk Municipal Water Works (Water Works), a component unit of the City of Keokuk, as of and for the year ended June 30, 2008, which collectively comprise the Water Works' basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 the Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 material weaknesses.

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 the Water Works' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Water Works' financial statements that is more than inconsequential will not be prevented or detected by the Water Works' internal control.

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 the Water Works' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be material weaknesses in internal control over financial reporting.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Water Works' operations for the year ended June 30, 2008 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.

The 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 City's responses, we did not audit the 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 Keokuk Municipal Water Works may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*CPA Associates PC*

January 7, 2009

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2008**

---

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Material weaknesses 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**

**MATERIAL WEAKNESSES**

II-A-08 Preparation of Financial Statements - The Water Works does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in size to the Water Works. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Water Works' management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - The Water Works will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

II-B-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Board of Trustees and management should continue to provide oversight and direction based upon their direct knowledge of the Water Works' operations and day-to-day contact with employees to control and safeguard assets.

Response - The Water Works will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No matters were noted.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2008**

---

**Part III: Other Findings Related to Required Statutory Reporting**

- III-A-08 Deposits and Investments - The Water Works has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.
- III-B-08 Travel Expense - No expenditures of Water Works money for travel expenses of spouses of Water Works members or employees were noted.
- III-C-08 Board Minutes - No transactions were found that we believe should have been approved in the Water Works minutes but were not.
- III-D-08 Questionable Disbursements - No disbursements were found that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- III-E-08 Certified Budget - Disbursements during the year ended June 30, 2008 did not exceed budget amounts. The Water Works' budget is developed on a modified accrual basis, which has limited meaning due to the inconsistencies in treatment of expenditures. Expenditures include cash disbursements for property, plant and equipment in the year incurred and depreciation expense of capitalized property, plant and equipment under GAAP. The June 30, 2008 budget also includes expenditures related to the 2008 bond proceeds, and bond principal and interest payments for the 2004 and 2005 Series Revenue Capital Loan Notes.

Recommendation - The Water Works should develop its budget on a cash-basis, which accounts for cash receipts when received and cash disbursements when paid.

Response - The Water Works will modify the budget to a cash-basis method.

Conclusion - Response accepted.

- III-F-08 Bond Coverage - Surety bond coverage of Water Works 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.
- III-G-08 Revenue Notes - The Water Works has complied with the Water Revenue Notes provisions except for the additional Reserve Fund deposit required by the Water Revenue Capital Loan Notes Series 2008 was not segregated in a separate bank account at June 30, 2008

Recommendation - The Water Works should segregate the assets held in the Reserve Fund.

Response - The Water Works will segregate the assets.

Conclusion - Response accepted.

**Keokuk Municipal Water Works,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2008**

---

III-H-08 Business Transactions with Water Works Officials and Employees - Business transactions between the Water Works officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Daniel Dunagen, Spouse of Employee	Sludge	\$ 2,250
Mike Haney, Employee	Mowing	\$ 3,425

These transactions may represent conflicts of interest since the transactions were not entered into through competitive bidding and the total transactions were over \$1,500 during the fiscal year.

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Steven Johnston, Employee	Mowing	\$ 1,405

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transaction does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

Recommendation - The Water Works should consult legal counsel to determine the disposition of this matter.

Response - The Water Works will contact its legal counsel.

Conclusion - Response accepted.