

CHARITON MUNICIPAL WATERWORKS
CHARITON, IOWA

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

June 30, 2009

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

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-9
Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A	11
Notes to Financial Statement		12-15
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)		17
Notes to Required Supplementary Information - Budgetary Reporting		18
Other Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - Enterprise Funds	1	20-22
Schedule of Indebtedness	2	23
Bond and Note Maturities	3	24
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>		25-26
Schedule of Findings		27-29

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, 2013
Bruce Hamersley	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite

Chariton Municipal Waterworks

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report

To the Board of Trustees of the
Chariton Municipal Waterworks:

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2009. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

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

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

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Chariton Municipal Waterworks as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2009, 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 17 through 18 are not required parts of the financial statement, 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 performed for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

September 26, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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, 2009. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

2008 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks increased 9%, or approximately \$148,000, from fiscal 2008 to fiscal 2009.

Disbursements decreased 10%, or approximately \$209,000, from fiscal 2008 to fiscal 2009.

The Waterworks total cash basis net assets increased 8%, or approximately \$46,000, from June 30, 2008 to June 30, 2009.

The significant decrease in disbursements is due primarily to less construction costs in 2009 compared to 2008.

USING THIS ANNUAL REPORT

The Chariton Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Chariton Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Chariton Municipal Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Chariton Municipal Waterworks' financial statement. The annual report consists of a financial statement 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.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Chariton Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

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

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 individual Enterprise Funds. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2009.

FINANCIAL ANALYSIS OF THE CHARITON MUNICIPAL WATERWORKS

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

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

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, taps and miscellaneous fees. Receipts also include revenue bond proceeds and sale of capital assets. The City of Chariton pays the Chariton Municipal Waterworks contract fees to include sewer and landfill charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2009 and June 30, 2008 are presented below:

<u>Changes in Cash Basis Net Assets</u>		
	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts:		
Use of money and property	\$ 12,810	\$ 26,597
Charges for service	1,181,267	1,169,988
Miscellaneous	223,929	8,727
Sewer rental collections	430,580	431,069
Sale of capital assets	-	2,399
Revenue bond proceeds	3,268	65,308
Total receipts	<u>1,851,854</u>	<u>1,704,088</u>
Disbursements		
Plant operation and maintenance	527,622	497,570
Distribution expenses	210,953	200,125
Accounting and collection	188,965	175,099
Administration and other expenses	157,163	91,140
Capital improvements	92,268	369,831
Sewer rental disbursed to City	430,580	431,069
Debt service:		
Principal paid	146,000	190,000
Interest and trustee fees paid	52,234	60,439
Total disbursements	<u>1,805,785</u>	<u>2,015,273</u>
Net change in cash basis net assets	46,069	(311,185)
Cash basis net assets beginning of year	595,514	906,699
Cash basis net assets end of year	<u>\$ 641,583</u>	<u>\$ 595,514</u>

In fiscal year 2009, receipts increased \$147,766, or 9%, from 2008. The increase was primarily due to donations and grants received in fiscal 2009 compared to fiscal 2008. In fiscal 2009, disbursements decreased \$209,488, or 10%. The decrease was primarily due to decreased construction in fiscal 2009 compared to fiscal 2008.

The larger portions of the Waterworks' net assets (61%) are unrestricted net assets available for use in routine operations of the distribution and administrative areas of the Waterworks and for capital improvements to the distribution areas. The remaining net assets (39%) are restricted for the repayment of the revenue bonds issued and the customer water deposits.

BUDGETARY HIGHLIGHTS

The Chariton Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the year, one budget amendment increased budgeted disbursements by \$449,145

DEBT ADMINISTRATION

At June 30, 2009, the Waterworks had \$1,189,000 in revenue notes and revenue bonds outstanding, compared to \$1,331,732 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Chariton Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2010 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged.

CONTACTING THE CHARITON MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Waterworks Superintendent, 101 Albia Road, Box 866, Chariton, IA 50049.

Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BASIS NET ASSETS

Year ended June 30, 2009

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	\$ 1,181,267
Miscellaneous	<u>223,929</u>
Total operating receipts	<u>1,405,196</u>
Operating disbursements:	
Business type activities	<u>1,176,971</u>
Total operating disbursements	<u>1,176,971</u>
Excess of operating receipts over operating disbursements	<u>228,225</u>
Non-operating receipts (disbursements):	
Interest on investments	12,810
Sewer fees collected for City	430,580
Sewer fees remitted to City	(430,580)
Revenue bond proceeds	3,268
Debt service	<u>(198,234)</u>
Total non-operating receipts (disbursements)	<u>(182,156)</u>
Change in cash basis net assets	46,069
Cash basis net assets beginning of year	<u>595,514</u>
Cash basis net assets end of year	<u>\$ 641,583</u>
Cash Basis Net Assets	
Restricted for:	
Bond principal and interest payments	\$ 16,443
Customer water deposits	91,297
Bond reserve	<u>145,000</u>
Total restricted net assets	<u>252,740</u>
Unrestricted	<u>388,843</u>
Total cash basis net assets	<u>\$ 641,583</u>

See notes to financial statement.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Chariton Municipal Waterworks is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Chariton Municipal Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

In the prior year, the Chariton Municipal Waterworks financial statements were reported using the economic resources measurement focus and the accrual basis of accounting. As a result, amounts recorded on the current financial statements will not be easily comparable to prior year financial statements.

D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Cash Equivalents – The Waterworks considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets and Net Assets – Funds set aside for bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the business type activities function.

Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2009 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 Water 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.

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Waterworks.

Note 3. Revenue Notes and Bonds Payable

Annual debt service requirements to maturity for the revenue notes and bonds payable are as follows:

Year Ending June 30,	Water Revenue Notes		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 115,000	\$ 23,473	\$ 36,000	\$ 20,820	\$ 151,000	\$ 44,293
2011	120,000	18,125	37,000	19,740	157,000	37,865
2012	125,000	12,485	37,000	18,630	162,000	31,115
2013	135,000	6,547	38,000	17,520	173,000	24,067
2014	-	-	38,000	16,380	38,000	16,380
2015	-	-	39,000	15,240	39,000	15,240
2016	-	-	40,000	14,070	40,000	14,070
2017	-	-	40,000	12,870	40,000	12,870
2018	-	-	41,000	11,670	41,000	11,670
2019	-	-	41,000	10,440	41,000	10,440
2020	-	-	42,000	9,210	42,000	9,210
2021	-	-	43,000	7,950	43,000	7,950
2022	-	-	43,000	6,660	43,000	6,660
2023	-	-	44,000	5,370	44,000	5,370
2024	-	-	45,000	4,050	45,000	4,050
2025	-	-	45,000	2,700	45,000	2,700
2026	-	-	45,000	1,350	45,000	1,350
	<u>\$ 495,000</u>	<u>\$ 60,630</u>	<u>\$ 694,000</u>	<u>\$ 194,670</u>	<u>\$ 1,189,000</u>	<u>\$ 255,300</u>

Water Revenue Notes and Bonds

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,455,000 in water revenue notes issued in 1998. Proceeds from the notes provided financing for the construction of water main replacements. The notes are payable solely from water customer net receipts and are payable through fiscal year 2013.

Note 3. Revenue Notes and Bonds Payable (continued)

Annual principal and interest payments on the notes are expected to require less than 61 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$555,630. For the current year, principal and interest paid and total customer net receipts were \$138,533 and \$228,225, respectively.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006. Proceeds from the bonds provided financing for the construction of water main replacements. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 26 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$888,670. For the current year, principal and interest paid and total customer net receipts were \$57,876 and \$228,225, respectively.

Water Revenue Notes Payable

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

- (a) The notes will only be redeemed from the future earnings of the Waterworks and the note holders hold a lien on the future earnings of the funds.
- (b) \$145,000 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."

Water Revenue Bonds Payable

On August 7, 2006, the Waterworks entered into a State Revolving Fund loan and disbursement 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 funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. At June 30, 2009, the Waterworks had drawn down all of the \$800,000 amount authorized. 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.

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.

Note 3. Revenue Notes and Bonds Payable (continued)

- (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 4. 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 4.10% of their annual salary and the Waterworks is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$20,835, 15,988 and \$14,671 respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2009 is \$20,983. The liability has been computed based on rates of pay in effect at June 30, 2009.

Note 6. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$17,635 during the year ended June 30, 2009.

Note 7. 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 8. Contingency

The Waterworks participates in Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the Waterworks. The Waterworks management believes such revisions or disallowances, if any, will not be material to the Waterworks.

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, 2009

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 12,810	\$ 10,000	\$ 10,000	\$ 2,810
Charges for service	1,611,847	1,283,050	1,498,050	113,797
Miscellaneous	223,929	16,900	251,045	(27,116)
Total receipts	1,848,586	1,309,950	1,759,095	89,491
Disbursements:				
Business type activities	1,805,785	1,309,950	1,759,095	(46,690)
Excess (deficiency) of receipts over (under) disbursements	42,801	-	-	42,801
Other financing sources (net)	3,268	-	-	3,268
Change in cash basis net assets	46,069	-	-	46,069
Cash basis net assets beginning of year	595,514	-	-	595,514
Cash basis net assets end of year	\$ 641,583	\$ -	\$ -	\$ 641,583

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2009

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.

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 \$449,145. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the business-type activities function.

Other Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUNDS

Year ended June 30, 2009

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING RECEIPTS:					
Charge for service -					
Sale of water to meter customers	\$ 1,156,993	\$ -	\$ -	\$ -	\$ 1,156,993
Sales of water - tank service	1,803	-	-	-	1,803
Collection fee from City	12,000	-	-	-	12,000
Sale of supplies and labor	10,471	-	-	-	10,471
	<u>1,181,267</u>	-	-	-	<u>1,181,267</u>
Miscellaneous -					
Rent	4,190	-	-	-	4,190
Refunds and reimbursements	9,750	-	-	-	9,750
Customer deposits	-	11,976	-	-	11,976
Miscellaneous	198,013	-	-	-	198,013
	<u>211,953</u>	<u>11,976</u>	-	-	<u>223,929</u>
Total operating receipts	<u>1,393,220</u>	<u>11,976</u>	-	-	<u>1,405,196</u>
OPERATING DISBURSEMENTS:					
Business type activities -					
Water -					
Plant operation and maintenance -					
Salaries	116,874	-	-	-	116,874
Power and propane	49,841	-	-	-	49,841
Chemicals	107,515	-	-	-	107,515
Supplies	5,275	-	-	-	5,275
Telephone	1,442	-	-	-	1,442
Lake expense	234,249	-	-	-	234,249
Miscellaneous and safety	2,761	-	-	-	2,761
Maintenance material and labor	9,665	-	-	-	9,665
	<u>527,622</u>	-	-	-	<u>527,622</u>
Distribution expenses -					
Salaries	108,933	-	-	-	108,933
Vehicle expense	19,521	-	-	-	19,521
Insurance	32,827	-	-	-	32,827
Supplies	3,504	-	-	-	3,504
Utilities	9,678	-	-	-	9,678
Telephone	2,235	-	-	-	2,235
Miscellaneous and safety	578	-	-	-	578
Maintenance material	32,805	-	-	-	32,805
Maintenance labor	872	-	-	-	872
	<u>210,953</u>	-	-	-	<u>210,953</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUNDS

Year ended June 30, 2009

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING DISBURSEMENTS (continued) -					
Business type activities (continued) -					
Water (continued) -					
Accounting and collection -					
Salaries	\$ 101,336	\$ -	\$ -	\$ -	\$ 101,336
Meter reading	6,476	-	-	-	6,476
Office supplies	3,877	-	-	-	3,877
Sales tax	56,848	-	-	-	56,848
Postage	9,198	-	-	-	9,198
Telephone	2,399	-	-	-	2,399
Utilities	3,729	-	-	-	3,729
Miscellaneous and safety	5,102	-	-	-	5,102
	<u>188,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,965</u>
Administration and other expenses -					
Engineering and legal	9,875	-	-	-	9,875
Employee benefits	115,962	-	-	-	115,962
Audit and filing fee	3,715	-	-	-	3,715
Miscellaneous and safety	16,554	-	-	-	16,554
Building expense	1,024	-	-	-	1,024
Customer deposits	-	10,033	-	-	10,033
	<u>147,130</u>	<u>10,033</u>	<u>-</u>	<u>-</u>	<u>157,163</u>
Capital improvements -					
Materials	17,402	-	-	-	17,402
Towers	24,986	-	-	-	24,986
Meters	23,098	-	-	-	23,098
Office equipment	750	-	-	-	750
Distribution improvements	14,532	-	-	-	14,532
Vehicles	11,500	-	-	-	11,500
	<u>92,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,268</u>
Total operating disbursements	<u>1,166,938</u>	<u>10,033</u>	<u>-</u>	<u>-</u>	<u>1,176,971</u>
Excess of operating receipts over operating disbursements	<u>226,282</u>	<u>1,943</u>	<u>-</u>	<u>-</u>	<u>228,225</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUNDS

Year ended June 30, 2009

	General	Customer Deposit	Debt Service	Improvement	Total
NON-OPERATING RECEIPTS (DISBURSEMENTS):					
Interest on investments	\$ 5,455	\$ -	\$ -	\$ 7,355	\$ 12,810
Miscellaneous -					
Sewer rental collections	430,580	-	-	-	430,580
Sewer rental disbursed to City	(430,580)	-	-	-	(430,580)
Revenue bond proceeds	3,268	-	-	-	3,268
Debt service -					
Principal redemption	-	-	(146,000)	-	(146,000)
Interest paid	-	-	(50,409)	-	(50,409)
Service fees	-	-	(1,825)	-	(1,825)
Total non-operating receipts (disbursements)	8,723	-	(198,234)	7,355	(182,156)
Excess (deficiency) of receipts over (under) disbursements	235,005	1,943	(198,234)	7,355	46,069
Operating transfers in (out)	(193,555)	-	198,155	(4,600)	-
Net change in cash basis net assets	41,450	1,943	(79)	2,755	46,069
Cash basis net assets, beginning of year	119,553	89,354	161,522	225,085	595,514
Cash basis net assets, end of year	\$ 161,003	\$ 91,297	\$ 161,443	\$ 227,840	\$ 641,583

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2009

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Notes	11-01-98	4.05%-4.85%	\$ 1,455,000
Water Revenue Bonds	08-07-06	3.00%	800,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
11-01-98	\$ 605,000	\$ -	\$ 110,000	\$ 495,000	\$ 28,533	\$ -
08-07-06	726,732	3,268	36,000	694,000	21,876	-
Total	\$ 1,331,732	\$ 3,268	\$ 146,000	\$ 1,189,000	\$ 50,409	\$ -

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 3

BOND AND NOTE MATURITIES

June 30, 2009

Year ending June 30,	Water Revenue Notes Issued November 1, 1998	
	Interest Rates	Amount
2010	4.65%	\$ 115,000
2011	4.70%	120,000
2012	4.75%	125,000
2013	4.85%	135,000
		\$ 495,000

Year ending June 30,	Water Revenue Bonds Issued August 7, 2006		
	Interest Rates	Amount	Total
2010	3.00%	\$ 36,000	\$ 151,000
2011	3.00%	37,000	157,000
2012	3.00%	37,000	162,000
2013	3.00%	38,000	173,000
2014	3.00%	38,000	38,000
2015	3.00%	39,000	39,000
2016	3.00%	40,000	40,000
2017	3.00%	40,000	40,000
2018	3.00%	41,000	41,000
2019	3.00%	41,000	41,000
2020	3.00%	42,000	42,000
2021	3.00%	43,000	43,000
2022	3.00%	43,000	43,000
2023	3.00%	44,000	44,000
2024	3.00%	45,000	45,000
2025	3.00%	45,000	45,000
2026	3.00%	45,000	45,000
		\$ 694,000	\$ 1,189,000

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

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

To the Board of Trustees
Chariton Municipal Waterworks

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 26, 2009. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Chariton Municipal Waterworks internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing 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, including deficiencies 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 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 items I-A-09 and I-B-09 are material weaknesses.

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, 2009 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

September 26, 2009

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-09 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.

I-B-09 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting

II-A-09 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, 200, exceeded the amounts budgeted in the business type activities function of the Chariton Municipal Waterworks.

Recommendation – The budget should have been amended before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-B-09 Questionable Disbursements - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-09 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

II-D-09 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	\$ 4,503
Mark Savage, Employee, Brother owns ARS Construction	Construction, hauling	\$ 13,132

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-09 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.

II-F-09 Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2009

II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted

II-H-09 Revenue Notes and Bonds - No instances of non-compliance with the water revenue note and bond resolutions were noted.

II-I-09 Delinquent Accounts – For delinquent water service accounts, the Waterworks does not consistently turn over the accounts to the County Treasurer for collection. For example, in fiscal year 2009, only two delinquent account was turned over to the County Treasurer for collection.

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

Response – We will review this issue.

Conclusion – Response accepted.

II-J-09 Revenue Bonds Interest – The average interest rate on the remaining portion of the 1998 bond issue is approximately 4.74%. The bond agreements allow the Waterworks to refinance or pay off these bonds. If the Waterworks refinanced these bonds, a significant amount of interest could be saved.

Recommendation – The Waterworks analyze all aspects of its operation, including financing decisions, to ensure the business decisions made are prudent and efficient.

Response – We will continually review the financing decisions to ensure the decisions made are prudent and efficient.

Conclusion – Response accepted.

II-K-09 Payroll – We noted that there was not always written authorization for employee pay rates. An instance was noted where an I9 was incomplete.

Recommendation – Written authorization of pay rates should be obtained for all employees, and all I9's should be complete.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

II-L-09 Contracts – For one construction contract, no liquidated damages were assessed on a contractor who completed a project over one year after the agreed upon completion date. The contract allows the Waterworks to assess liquidated damages in this case, but the Waterworks did not do so. Furthermore, no discussion of this issue could be found in the Board of Trustee minutes.

Recommendation – The Waterworks review the liquidated damage issue as noted above.

Response – We will implement this recommendation.

Conclusion – Response accepted.