

**CENTERVILLE  
MUNICIPAL WATERWORKS**

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

June 30, 2010

# CENTERVILLE MUNICIPAL WATERWORKS

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# CENTERVILLE MUNICIPAL WATERWORKS

## Waterworks' Officials June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Gordon	Trustee	August 2010
CJ Hash	Trustee	August 2012
Carl Cisler	Trustee	August 2010
Nancy Bennett	Trustee	August 2012
Bill Milani	Trustee	August 2012



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### Independent Auditors' Report

To the Board of Waterworks Trustees  
Centerville Municipal Waterworks  
Centerville, Iowa

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, for the year ended June 30, 2010. This financial statement is the responsibility of the Centerville Municipal Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Centerville Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Centerville that is attributable to the transactions of the Waterworks.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of the cash basis financial position of the Centerville Municipal Waterworks as of June 30, 2010, and the changes in its 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 June 2, 2011 on our consideration of the Centerville Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 4 through 7 and page 15 and 16 are not a required part 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 conducted for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in pages 17 through 19 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

*T&T Financial Group, P.C.*

Centerville, Iowa  
June 2, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Centerville Municipal Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the Centerville Municipal Waterworks is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### **2010 FINANCIAL HIGHLIGHTS**

The highlights for the fiscal year July 1, 2009 to June 30, 2010 are as follows:

During the year we retired the remaining \$250,000 principal balance and interest of \$2,672 from the original \$990,000 loan from the Water Revenue Refinancing Bonds.

We also retired the \$14,876 principal balance and interest of \$421 from the original \$50,000 US Bank loan.

We made the annual principal payment and two semi-annual interest payments to the SRF loan.

42 leaks were repaired during fiscal year 2010.

Communication was ongoing with City of Centerville for the purpose of sharing resources with sewer and street departments to improve efficiency and ultimately save customers money. The City Council and the Water Board reached a memorandum of understanding that laid the groundwork for this agreement.

Within the water department there were several staffing changes in 2009-10. The General Manager and the Office Manager retired and the remaining office employee took another job. As a result, the board made the following adjustments: Brian Lawson was made team leader of distribution employees and board members took on responsibilities that the general manager had been doing. The board contracted with Commercial Resources for financial oversight and office management. One new office staff worker was hired.

### **USING THIS ANNUAL REPORT**

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

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

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

This discussion and analysis is intended to serve as an introduction to the Centerville Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Waterworks' financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Waterworks' operating receipts and disbursements, non-operating receipts and disbursements and whether the Waterworks' financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.
- Required Supplementary Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.
- The Supplementary Information provides detailed information on the Waterworks' reserved funds, and indebtedness at June 30, 2010.

## **FINANCIAL ANALYSIS OF THE WATERWORKS**

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

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

Operating receipts are those receipts received for fees charged based on water usage, and service charges to consumers of water in the Centerville community. Operating disbursements are disbursements paid for the operation and administration of the water plant and related water and sewer lines in Centerville. Non-operating receipts and disbursements are for interest on investments, debt proceeds, debt issue costs and changes in customers' deposits.

A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2010 and 2009 are shown on the following page.

The Waterworks' net assets are available for the use in routine operations for the plant, distribution and administrative areas of the Waterworks and for the capital improvements to the plant and distribution areas. State and federal laws and regulations require the Centerville Municipal Waterworks to perform specific maintenance and monitoring functions in the distribution of water sources before final distribution.

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2010	2009
<b>Receipts:</b>		
Interest on investments	\$ 6,692	12,472
Charges for service	1,088,426	1,105,766
Sewer fees collected for the City	1,190,175	803,993
Proceeds from SRF Loan	56,134	389,366
Proceeds from CDBG Grant	124,956	310,044
Miscellaneous	77,221	104,483
Total receipts	<u>2,543,604</u>	<u>2,726,124</u>
<b>Disbursements:</b>		
Plant operation and maintenance	389,286	394,496
Distribution, operation and maintenance	205,630	199,728
Administration	362,473	402,987
Sewer fees remitted to the City	1,145,638	803,993
Debt Service	303,573	127,365
Capital Outlay	129,506	785,706
Total disbursements	<u>2,536,106</u>	<u>2,714,275</u>
Net change in cash basis net assets	7,498	11,849
Cash basis net assets beginning of year	<u>608,823</u>	<u>596,974</u>
Cash basis net assets end of year	<u>\$ 616,321</u>	<u>608,823</u>

### LONG-TERM DEBT

At June 30, 2010, the Centerville Municipal Waterworks had \$618,000 in bonds and other long-term debt outstanding, compared to \$851,743 in 2009, as shown below.

Outstanding Debt at Year End		
	June 30	
	2010	2009
Water Revenue Refinancing Bonds	\$ -	250,000
State Revolving Fund	401,000	369,867
Rathbun Regional Water Association	217,000	217,000
US Bank	-	14,876
Total	<u>\$ 618,000</u>	<u>851,743</u>

The overall decrease in the total debt balance was due to prepaying the remaining balance on the Water Revenue Refinancing Bonds.

## **ECONOMIC FACTORS AND FUTURE BUDGET IMPLICATIONS**

No large capital projects are planned for the next year but will inspect both water towers in March or April of 2011 and prepare to paint and repair one or both if needed.

Other future plans are to work with the City of Centerville about replacing services and make repairs to the streets on North 10th and East and West State.

## **CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Centerville Municipal Waterworks, PO Box 867, 312 East Maple, Centerville, IA 52544.

# CENTERVILLE MUNICIPAL WATERWORKS

## Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets For the Year Ended June 30, 2010

Operating receipts:		
Charges for service	\$	1,088,426
Miscellaneous		<u>77,221</u>
Total operating receipts		<u>1,165,647</u>
Operating disbursements:		
Business type activities:		
Plant operation and maintenance		389,286
Distribution, operation and maintenance		205,630
Administration		<u>362,473</u>
Total operating disbursements		<u>957,389</u>
Excess of operating receipts over operating disbursements		<u>208,258</u>
Non-operating receipts (disbursements):		
Interest on investments		6,692
Proceeds from SRF Loan		56,134
Proceeds from CDBG Grant		124,956
Sewer fees collected for the City		1,190,175
Sewer fees remitted to the City		(1,145,638)
Debt service		(303,573)
Capital Projects		<u>(129,506)</u>
Total non-operating receipts (disbursements)		<u>(200,760)</u>
Change in cash basis net assets		7,498
Cash basis net assets, beginning of year		<u>608,823</u>
Cash basis net assets, end of year	\$	<u><u>616,321</u></u>
Cash basis net assets:		
Restricted for:		
Customers' deposits	\$	46,704
Sewer and storm water fees		44,538
Reserved for debt service		<u>37,573</u>
Total restricted net assets		<u>128,815</u>
Unrestricted		<u>487,506</u>
Total cash basis net assets	\$	<u><u>616,321</u></u>

See accompanying notes to financial statement.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement June 30, 2010

### Note 1 – Summary of Significant Accounting Policies

#### A. Reporting Entity

The financial statement includes all funds of the Centerville Municipal Waterworks, a component unit of the City of Centerville. The Centerville Municipal Waterworks is legally separate from the City of Centerville, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statement to be misleading or incomplete. The Centerville Municipal Waterworks is governed by a five-member board appointed by the City Council. The Waterworks' operating budget is subject to approval of the City Council. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

#### B. Basis of Presentation

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

#### C. Basis of Accounting

The Centerville Municipal Waterworks Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks 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 the financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

#### D. Net Assets

Funds set aside for bond principal and interest payments, capital projects, and customer water deposits are classified as restricted.

#### E. Investments

Investments are stated at cost, which approximates market.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2010

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### F. Date of Management Review

Management has evaluated subsequent events through June 2, 2011, the date which the financial statement was available to be issued.

### Note 2 – Cash and Investments

The Waterworks' deposits in banks at June 30, 2010 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 Waterworks; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the Waterworks' investments consist entirely of certificates of deposits.

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

### Note 3 – Compensated Absences

Waterworks' employees accumulate earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and payments payable to employees at June 30, 2010 are as follows:

<u>Type of Benefit</u>	<u>Amount at June 30, 2010</u>
Vacation	\$ <u>9,965</u>

The liability has been computed based on rates of pay as of June 30, 2010.

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2010

Note 4 – State Revolving Loan

The Waterworks is indebted to the State Revolving Fund in the amount of \$401,000 as of June 30, 2010. The note is due in semi-annual installments including interest at 3.00 percent per annum. The note is secured by future water customer net receipts. The note matures in June 2023.

Annual debt service requirements for each of the five following years are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 26,000	13,033
2012	26,000	12,188
2013	27,000	11,343
2014	28,000	10,465
2015	29,000	9,555

Note 5 – Rathbun Regional Water Loan

As part of the water purchase contract described in Note 6, Rathbun Regional Water Association agreed to loan the Centerville Municipal Waterworks \$217,000. The loan will be forgivable provided that Centerville Municipal Waterworks meets the minimum water purchase quantities for the first 10 years of the water purchase contract.

Note 6 – Water Purchase Contract

Centerville Municipal Waterworks agreed to a water purchase contract with Rathbun Regional Water Association in November of 2001. In the forty-year agreement, Centerville Municipal Waterworks agreed to purchase a minimum of three million gallons of water per month for the first five years. Following the initial five-year period, the Centerville Municipal Waterworks agreed to purchase a minimum of seven and one-half million gallons of water per month.

Based on the above agreement, the minimum water purchase payments for the next two years would be as follows:

<u>Year Ending June 30,</u>	<u>Minimum Water Purchase Payments</u>
2011	\$ 189,000
2012	189,000

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2010

### Note 7 – Pension and Retirement Benefits

The Centerville Municipal Waterworks contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer, defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Centerville Municipal Waterworks is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Centerville Municipal Waterworks' contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$15,776, \$16,946, and \$22,873 respectively, equal to the required contribution for each year.

### Note 8 – Risk Management

The Centerville Municipal Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2010

### Note 8 – Risk Management (Continued)

The Centerville Municipal Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Centerville Municipal Waterworks' contributions to the Pool for the year ended June 30, 2010 were \$11,375.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Centerville Municipal Waterworks also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation. The Centerville Municipal Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Financial Statement (Continued) June 30, 2010

### Note 9 – Other Postemployment Benefits (OPEB)

The City of Centerville operates a single-employer retiree benefit plan in which the Centerville Municipal Waterworks participates. The plan provides medical/prescription drug benefits for retirees and their spouses. The Centerville Municipal Waterworks has three active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. However for former employees, the Waterworks will pay for 50% of the cost of the single health insurance premium to the age of 65. Former employees have to be employed by the Waterworks for more than 20 years in order to qualify for this benefit. If these requirements are met, the Waterworks and the former employee each pay \$277.86 per month for single health insurance coverage.

The contribution plan requirements of the plan members are established and may be amended by the City of Centerville. The City of Centerville currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Centerville Municipal Waterworks and plan members are \$555.72 for single coverage and \$1,227.29 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the Centerville Municipal Waterworks contributed \$27,465 and plan members eligible for benefits contributed \$5,879 to the plan.

### Note 10 – Contingent Liability

Centerville Municipal Waterworks is contingently liable to grantors for monies received until each contract has been closed by the grantor.

## CENTERVILLE MUNICIPAL WATERWORKS

### Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) For the Year Ended June 30, 2010

	<u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>
Receipts:			
Use of money and property	\$ 6,692	-	6,692
Charges for service	2,278,601	1,190,175	1,088,426
Miscellaneous	258,311	-	258,311
Total receipts	<u>2,543,604</u>	<u>1,190,175</u>	<u>1,353,429</u>
Disbursements:			
Business type activities	<u>2,536,106</u>	<u>1,145,638</u>	<u>1,390,468</u>
Change in cash basis net assets	7,498	44,537	(37,039)
Balance, beginning of year	<u>608,823</u>	<u>-</u>	<u>608,823</u>
Balance, end of year	<u>\$ 616,321</u>	<u>44,537</u>	<u>571,784</u>

See accompanying independent auditors' report.

<u>Budgeted Amounts</u>		<u>Variance</u>
<u>Original</u>	<u>Final</u>	<u>Favorable</u> <u>(Unfavorable)</u>
4,000	4,000	2,692
1,113,300	1,113,300	(24,874)
<u>86,100</u>	<u>486,100</u>	<u>(227,789)</u>
<u>1,203,400</u>	<u>1,603,400</u>	<u>(249,971)</u>
<u>1,203,400</u>	<u>1,603,400</u>	<u>212,932</u>
-	-	
<u>608,823</u>	<u>608,823</u>	
<u><u>608,823</u></u>	<u><u>608,823</u></u>	

# CENTERVILLE MUNICIPAL WATERWORKS

## Notes to Required Supplementary Information – Budgetary Reporting June 30, 2010

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

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$400,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amount budgeted.

# CENTERVILLE MUNICIPAL WATERWORKS

## Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - by Category As of and for the Year Ended June 30, 2010

	<u>Water Operating</u>	<u>Water Revenue Bond Sinking</u>
Operating receipts:		
Charges for services:		
Sale of water	\$ 1,059,638	-
Billing fees from City	15,600	-
Rental	13,188	-
Total charges for services	<u>1,088,426</u>	<u>-</u>
Miscellaneous		
Sales tax collected	54,306	-
Customer deposits	-	-
Miscellaneous	7,073	-
Total miscellaneous	<u>61,379</u>	<u>-</u>
Total operating receipts	<u>1,149,805</u>	<u>-</u>
Operating disbursements:		
Business type activities:		
Plant operation and maintenance:		
Personal services	6,498	-
Contractual services	12,303	-
Commodities	370,485	-
Total plant operation and maintenance	<u>389,286</u>	<u>-</u>
Distribution operating and maintenance:		
Personal services	126,988	-
Contractual services	63,464	-
Commodities	15,178	-
Total distribution operation and maintenance	<u>205,630</u>	<u>-</u>
Administration:		
Personal services	175,944	-
Contractual services	93,976	-
Commodities	64,057	-
Total administration	<u>333,977</u>	<u>-</u>
Total operating disbursements	<u>928,893</u>	<u>-</u>
Excess of operating receipts over operating disbursements	<u>220,912</u>	<u>-</u>

(continued)

<u>Water Revenue Reserve</u>	<u>Water Reserve Improvement</u>	<u>Customer Deposits</u>	<u>Total</u>
-	-	-	1,059,638
-	-	-	15,600
-	-	-	13,188
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,088,426</u>
-	-	-	54,306
-	-	15,842	15,842
-	-	-	7,073
<u>-</u>	<u>-</u>	<u>15,842</u>	<u>77,221</u>
<u>-</u>	<u>-</u>	<u>15,842</u>	<u>1,165,647</u>
-	-	-	6,498
-	-	-	12,303
-	-	-	370,485
<u>-</u>	<u>-</u>	<u>-</u>	<u>389,286</u>
-	-	-	126,988
-	-	-	63,464
-	-	-	15,178
<u>-</u>	<u>-</u>	<u>-</u>	<u>205,630</u>
-	-	-	175,944
-	-	28,496	122,472
-	-	-	64,057
<u>-</u>	<u>-</u>	<u>28,496</u>	<u>362,473</u>
<u>-</u>	<u>-</u>	<u>28,496</u>	<u>957,389</u>
<u>-</u>	<u>-</u>	<u>(12,654)</u>	<u>208,258</u>

# CENTERVILLE MUNICIPAL WATERWORKS

## Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - by Category (Continued) As of and for the Year Ended June 30, 2010

	<u>Water Operating</u>	<u>Water Revenue Bond Sinking</u>
Non-operating receipts (disbursements):		
Interest on investments	2,437	-
Proceeds from SRF Loan	56,134	-
Proceeds from CDBG Grant	124,956	-
Sewer fees collected for the City	1,190,175	-
Sewer fees remitted to the City	(1,145,638)	-
Debt Service:		
Principal redeemed	-	(286,984)
Interest paid	-	(16,589)
Capital Outlay	<u>(129,506)</u>	<u>-</u>
Total non-operating receipts (disbursements)	<u>98,558</u>	<u>(303,573)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>319,470</u>	<u>(303,573)</u>
Operating transfers in (out):		
Customers' deposits	928	-
Water Reserve Improvement	(85,000)	-
Water Revenue Reserve		140,366
Water Revenue Bond Sinking	<u>(126,474)</u>	<u>126,474</u>
Total operating transfers in (out)	<u>(210,546)</u>	<u>266,840</u>
Change in cash basis net assets	108,924	(36,733)
Cash basis net assets, beginning of year	<u>131,452</u>	<u>74,306</u>
Cash basis net assets, end of year	<u>\$ 240,376</u>	<u>37,573</u>
Cash basis net assets:		
Restricted for:		
Customers' deposits	\$ -	-
Sewer and storm water fees	44,538	-
Reserved for debt service	-	37,573
Unrestricted	<u>195,838</u>	<u>-</u>
Total cash basis net assets	<u>\$ 240,376</u>	<u>37,573</u>

See accompanying independent auditors' report.

<u>Water Revenue Reserve</u>	<u>Water Reserve Improvement</u>	<u>Customer Deposits</u>	<u>Total</u>
1,441	1,999	815	6,692
-	-	-	56,134
-	-	-	124,956
-	-	-	1,190,175
-	-	-	(1,145,638)
-	-	-	(286,984)
-	-	-	(16,589)
-	-	-	(129,506)
<u>1,441</u>	<u>1,999</u>	<u>815</u>	<u>(200,760)</u>
<u>1,441</u>	<u>1,999</u>	<u>(11,839)</u>	<u>7,498</u>
-	-	(928)	-
-	85,000	-	-
(140,366)	-	-	-
-	-	-	-
<u>(140,366)</u>	<u>85,000</u>	<u>(928)</u>	<u>-</u>
(138,925)	86,999	(12,767)	7,498
<u>194,149</u>	<u>149,445</u>	<u>59,471</u>	<u>608,823</u>
<u>55,224</u>	<u>236,444</u>	<u>46,704</u>	<u>616,321</u>
-	-	46,704	46,704
-	-	-	44,538
-	-	-	37,573
<u>55,224</u>	<u>236,444</u>	<u>-</u>	<u>487,506</u>
<u>55,224</u>	<u>236,444</u>	<u>46,704</u>	<u>616,321</u>

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Indebtedness For the Year Ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Water Revenue Refinancing Bonds	March 1, 2003	2.00-3.50	\$ <u>990,000</u>
Rathbun Regional Water Association	November 1, 2001	none	\$ <u>217,000</u>
US Bank	March 30, 2007	5.63	\$ <u>50,000</u>
SRF Loan	August 13, 2008	3.00	\$ <u>450,000</u>

See accompanying independent auditors' report.

<u>Balance June 30, 2009</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance June 30, 2010</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>2,672</u>	<u>-</u>
<u>217,000</u>	<u>-</u>	<u>-</u>	<u>217,000</u>	<u>-</u>	<u>-</u>
<u>14,876</u>	<u>-</u>	<u>14,876</u>	<u>-</u>	<u>421</u>	<u>-</u>
<u>369,867</u>	<u>56,133</u>	<u>25,000</u>	<u>401,000</u>	<u>13,631</u>	<u>1,003</u>



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

To the Board of Waterworks Trustees  
Centerville Municipal Waterworks  
Centerville, Iowa

We have audited the financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, for the year ended June 30, 2010, and have issued our report thereon dated June 2, 2011. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Centerville Municipal Waterworks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Centerville Municipal Waterworks' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designated to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2010-1, 2010-2 and 2010-3 to be material weaknesses.

## Compliance and Other Matters

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

We noted certain matters that we reported to the management of Centerville Municipal Waterworks in a separate letter dated June 2, 2011.

Comments involving statutory and other legal matters about the Centerville Municipal Waterworks' operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of Centerville Municipal Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the members and customers of the Centerville Municipal Waterworks and other parties to whom Centerville Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Centerville Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*T&T Financial Group, P.C.*

Centerville, Iowa  
June 2, 2011

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings and Responses For the Year Ended June 30, 2010

### I. Summary of Independent Auditors' Results:

- A. The auditors' report expresses an unqualified opinion on the financial statement, which was prepared on the basis of cash receipts, and cash disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- B. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statement. All were determined to be material weaknesses.
- C. The audit did not disclose any noncompliance that is material to the financial statement.
- D. The audit disclosed no audit findings that the auditor is required to report.

### II. Findings related to the financial statement:

#### Material Weaknesses:

#### **Finding 2010-1: Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America**

Condition: Management does not possess adequate knowledge and training in order to prepare financial statements, including required disclosures, in accordance with accounting principles generally accepted in the United States of America.

Criteria: Internal controls should be in place that provide reasonable assurance that the financial statement including the notes to the financial statement is prepared in accordance with accounting principles generally accepted in the United States of America.

Cause: Management has determined the cost to obtain adequate knowledge and training in order to prepare the financial statement, including required disclosures, in accordance with accounting principles generally accepted in the United States of America would exceed the benefit. Management will therefore continue to rely on the auditors in preparing the financial statement.

Effect: Misstatement of financial statement and omissions of required disclosures could occur and not be detected.

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

Response: Management has determined the cost to obtain adequate knowledge and training in order to prepare financial statement, including required disclosures, in accordance with accounting principles generally accepted in the United States of America would exceed the benefit. Management will therefore continue to rely on the auditors in preparing the financial statement.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings and Responses (Continued) For the Year Ended June 30, 2010

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

#### Material Weaknesses (continued):

#### **Finding 2010-2:** Lack of Segregation of Duties

Condition: An important aspect of the internal control over financial reporting is the segregation of duties amongst employees to prevent an individual employee from handling duties that are incompatible. We noted that a few people have essentially all responsibility for accounting and financial transactions.

Criteria: Internal controls should be in place to provide reasonable assurance that duties are properly segregated.

Cause: There are a limited number of office employees and this does not allow for proper segregation of duties.

Effect: Because of the inadequate segregation of duties, misstatements could go undetected.

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

Response: With a limited number of office employees, segregation of duties is difficult. The Board of Trustees is aware of the lack of segregation of duties.

#### **Finding 2010-3:** Material Adjustments

Condition: During the audit we identified material amounts of transfers between funds not reported correctly in the Waterworks' financial statement. Adjustments were subsequently made by the Waterworks to properly report these amounts in the financial statement.

Criteria: Transfers between funds should balance.

Cause: Transfers between funds were not closely monitored to make sure that transfers in equaled transfers out.

Effect: The general ledger did not accurately reflect the assets, liabilities, net assets, revenues and expenses of the Waterworks during the year.

Recommendation: We recommend the Waterworks implement controls to carefully review general ledger postings to ensure they are posted correctly and that transfers between funds equal.

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

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings and Responses (Continued) For the Year Ended June 30, 2010

### III. Other findings related to required statutory reporting:

- 10-III-1 Questionable Disbursements – We noted no disbursements that we believe may constitute an unlawful disbursement from public funds as defined in the Attorney General’s opinion dated April 25, 1979.
- 10-III-2 Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- 10-III-3 Certified Budget – The budget certified by the City of Centerville includes amounts budgeted for the Centerville Municipal Waterworks. Disbursements during the year ended June 30, 2010 did not exceed the amount budgeted.
- 10-III-4 Business Transactions – There were no transactions between the Waterworks and Waterworks’ officials or employees.
- 10-III-5 Bond Coverage – Surety bond coverage of the Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 10-III-6 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks’ investment policy were noted.
- 10-III-7 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Although minutes of the Board meeting were published, they did not include a summary of receipts, as required by Chapter 372.13(6) of the Code of Iowa.

In accordance with Iowa Code Section 21.5 the vote of each member on the question of holding a closed session and the reason for holding a closed session by reference to a specific exemption under the Code of Iowa shall be entered in the minutes. The Centerville Waterworks held a closed session during fiscal year, but the minutes did not reflect the vote of each member or the specific exemption for the closed session.

Recommendation: The Waterworks should comply with Chapter 372.13(6) of the Code of Iowa and the Commission’s minutes should show the vote of each member and specific exemption for going into a closed session.

Response: We will document these items in the future minutes.

Conclusion: Response accepted.

(continued)

# CENTERVILLE MUNICIPAL WATERWORKS

## Schedule of Findings and Responses (Continued) For the Year Ended June 30, 2010

### III. Other findings related to required statutory reporting (continued):

- 10-III-8 Revenue Notes – No instances of non-compliance with the revenue bonds and note resolutions were noted.

# CENTERVILLE MUNICIPAL WATERWORKS

## Staff

This audit was performed by:

TD&T Financial Group, P.C.  
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Personnel:  
Jerry Kirkpatrick, CPA, Principal  
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June 2, 2011

Board of Trustees  
Centerville Municipal Waterworks  
Centerville, Iowa

Dear Trustees:

In planning and performing our audit of the financial statements of Centerville Municipal Waterworks for the year ended June 30, 2010, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of other matters that are an opportunity to strengthen internal controls and operating efficiency. We previously reported on the Waterworks' internal control in our report dated June 2, 2011. This letter does not affect our report dated June 2, 2011 on the financial statement of Centerville Municipal Waterworks.

We will review the status of the comments during our next audit engagement. We have already discussed these comments and suggestions with various Waterworks personnel, and we will be pleased to discuss these comments in further detail at your convenience. Our comments are summarized as follows:

#### Other Matters

1. Cancel documents supporting disbursements. Papers and documents supporting disbursements should be cancelled (stamped "Paid") in such a manner as to render them ineffective as a support for further payment at the time the checks are signed. This procedure will help prevent unauthorized payment of invoices or invoices from being paid twice.

This report is intended solely for the information and use of the board of trustees, management, and others within the Waterworks and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*TD&T Financial Group, P.C.*