CRESTON CITY WATER WORKS

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

ADDITIONAL REQUIRED AUDITOR'S REPORTS

Year Ended June 30, 2010

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CRESTON CITY WATER WORKS

OFFICIALS

Name	Title	Term Expiration
Dennis C. Bailey	Chairman	December, 2010
	Trustee	December, 2012
Lee McNichols	Vice-Chairman	December, 2010
	Trustee	December, 2010
Ken Sharp	Treasurer	December, 2010
	Trustee	December, 2012
William Stuart	Secretary	December, 2010
	Trustee	December, 2010
Matt Higgins	Trustee	December, 2010
Steve Green	Assistant Secretary	December, 2010
	Manager	March 31, 2012
Angie West	Office Manager	Indefinite

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Creston City Water Works

We have audited the accompanying statement of activities and net assets and statement of cash receipts, disbursements and changes in cash balances of the business type activities of the Creston City Water Works, as of and for the year ended June 30, 2010. These financial statements are the responsibility of Water Works officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements referred to above were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Creston City Water Works as of June 30, 2010, and the 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 3, 2010, on our consideration of Creston City Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 16 through 17 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Creston City Water Works' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for that portion marked "unaudited" on which we express no opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Draper, Snodgrass, Mickelson & Co., P.C.

September 3, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Creston Water Works provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2010. We encourage readers to consider this information in conjunction with the City of Creston Water Works' financial statements, which follow.

Financial Highlights

The City of Creston Water Works total water revenues decreased by $6,102 from the previous fiscal year. The rural water sales decreased by $44,062 from the previous fiscal year.

We believe this decrease was due to excessive rainfall during this period from July 1, 2009 to June 30, 2010. Also, there was a decrease in interest due to paying off both obligation bonds on December 31, 2009 using funds from reserves.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows.

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City of Creston Water Works' financial activities.

The City of Creston Water Works' financial statements consists of a statement of activities and changes in cash balances. The statement provides information about the activities of the Creston Water Works as a whole and presents an overall view of the Water Works' finances.

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

Supplementary Information provides detailed information about the annual budget, non-major governmental funds and debt obligations.

Basis of Accounting

The City of Creston Water Works maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Water Works are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable,

accounts payable and accrued items. The accounts of the Water Works 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 assets, liabilities, reserves, fund balance, receipts and disbursements. Accordingly, the financial statements do not represent financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitations resulting from the use of cash basis accounting.

Reporting the City of Creston Water Works as a Whole

The statement of activities and changes in cash balance presents information showing how the City of Creston Water Works' cash balances changed during the most recent fiscal year.

The City of Creston Water Works' activities are displayed in the statement of activities and changes in cash balance.

The business type activities of the City of Creston Water Works include the collection of user fees for sewer, garbage, service connection and cable television service. The primary activity is the Municipal Water Utility.

Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about individual significant funds. Some funds are established by State law and bond covenants. The City of Creston Water Works can establish other funds to help it control and manage money for particular purposes.

The City of Creston Water Works has Three Sources of Funds

Sewer and garbage receipts, which are billed, collected and paid to the City of Creston on a monthly basis. The primary source of revenue is from the City of Creston Water Works – water sales.

Government Wide Financial Analysis

As noted earlier, the City of Creston Water Works reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City of Creston Water Works does not report capital assets or deprecation on those assets as would be required by GAAP.

Business Type Activities – Water Works

The City of Creston Water Works cash balance for activities decreased from a year ago by $532,295. This decrease is due to the City of Creston Water Works' Board of Trustees paying off Rural Development Loans with cash reserves.

The City of Creston Water Works has not had a rate increase since January 2008.

The cost of all Water Works' activities this year was $8,742,398, as compared to $4,738,041 the last fiscal year. This includes the sewer and garbage collection payments made to the City of Creston as shown on the following page under "Business Type Activities."

Business Type Activities

	2010	2009
Receipts:		
Program receipts		
Charges for services and sales:		
Water utility (all sources)	$6,300,660	$3,135,156
Sewer rental revenue	1,296,240	1,278,241
Garbage revenue	613,203	519,236
Total revenue	$8,210,103	$4,932,633
Disbursements:		
All water utility expenditures	$6,960,854	$2,909,388
Sewer rental expenditure	1,213,371	1,299,947
Garbage expenditure	568,173	528,706
Total disbursements	$8,742,398	$4,738,041
Increase (decrease) in cash balance	$ (532,295)	$ 194,592
Cash balance beginning of fiscal year	3,535,215	3,340,623
Cash balance end of fiscal year	$3,002,920	$3,535,215

The total business type activity receipts for the fiscal year were $8,210,103, which includes sewer and garbage collections that are in turn paid to the City of Creston, as compared to $4,932,633 collected the last fiscal year.

The Water Works Individual Major Funds

The City of Creston Water Works uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Water Works funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the City of Creston Water Works major funds.

City of Creston Water Works – General Fund

The General Fund is the chief operating fund of the City of Creston Water Works. At the end of the current fiscal year, the cash balance in the General Fund was $3,002,920 a decrease of $532,295.

The Employee Benefits Fund is included in the General Fund for revenues received and expenditures paid to the support of employee benefits for health insurance, FICA, IPERS, and unemployment benefits. The types of revenues received are the water rate revenues.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City of Creston Water Works general obligation and long-term debt. The City of Creston Water Works, from its General Fund, pays monthly payments for the two general obligation bonds in the amount of $7,975. On December 31, 2009, the City of Creston Water Works paid off the two general obligation bonds totaling $701,212 with funds from reserves.

Budgetary Highlights

In accordance with the Code of Iowa, the City of Creston Water Works annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. The City of Creston Water Works did not amend its operating budget at year end. The budget was approved and passed unanimously by the City of Creston Water Works Board of Trustees.

Debt Administration

At year end, the City of Creston Water Works had $0 in bonds as compared to $796,422 the last fiscal year.

Economic Factors and Next Year's Budget and Rates

The City of Creston Water Works Board of Trustees consider many factors when setting the 2010 fiscal year budget. The Water Works Board of Trustees is involved in four major projects as follows:

Project #1
Water System Improvements
Adams Street Water Main Rehabilitation and Expansion
Estimated Cost $900,000

Project #2
Water Treatment Plant Rehabilitation
Improvements for Regulatory Compliance and Capacity Improvements
Estimated Cost $12.5 Million

Project #3
Summit Lake Project
Shoreline Stabilization and Spillway Replacement
Estimated Cost $1.8 Million

Project #4
Twelve Mile Lake Sediment Control Structure
And Purchase of Land
Estimated Cost $800,000

These projects are in review and in some cases under construction. Applications are being prepared for grant fund assistance, low interest loans, etc.

The City of Creston Water Works Board of Trustees has reviewed the needs of all the projects budgeted in for the 2010-2011 fiscal year. Portions of these projects will continue on through fiscal year 2010, 2011, and 2012.

In addition to the projects stated above, other items of importance to the Water Works Board of Trustees are return on investments and the cost of employee benefits.

These factors all contributed when adopting the fiscal year 2010-2011 budget. The budget includes all business type activities, including sewer, garbage and water expenditures. Steps implemented by the Water Works Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2010-2011 fiscal year budget.

Contacting the City of Creston Water Works Financial Management

This financial report is designed to provide our rate-payers and creditors with a general overview of the City of Creston Water Works' finances and to show the City of Creston Water Works accountability for the money it receives. If you have questions about this report or need additional information, contact Steve A. Green, General Manager, City of Creston Water Works, 820 South Park Street, P.O. Box 405, Creston, IA 50801.

FINANCIAL STATEMENTS

CRESTON CITY WATER WORKS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and For the Year Ended June 30, 2010

Exhibit A

		Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Business type activities:				
Water	$ 8,742,398	$ 3,798,980	$ -	$ 4,259,211
Total business type activities	$ 8,742,398	$ 3,798,980	$ -	$ 4,259,211
General receipts:				
Interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				

The Notes to Financial Statements are an integral part of this statement.

Net (Disbursements), Receipts and Changes In Cash Basis Net Assets
Business Type Activities
$ (684,207)
$ (684,207)
$ 59,455
92,457
$ 151,912
$ (532,295)
3,535,215
$ 3,002,920

CRESTON CITY WATER WORKS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and For the Year Ended June 30, 2010

	Exhibit B Enterprise Funds
Operating receipts:	
Charge for service	$ 3,798,980
Intergovernmental	4,259,211
Total operating receipts	$ 8,058,191
Operating disbursements:	
Business type activities	$ 7,993,337
Total operating disbursements	$ 7,993,337
Excess (deficiency) of operating receipts over (under) operating disbursements	$ 64,854
Non-operating receipts (disbursements):	
Interest on investment	$ 59,455
Miscellaneous	92,457
Debt service	(749,061)
Total non-operating receipts (disbursements)	$ (597,149)
Excess (deficiency) of receipts over (under) disbursements	$ (532,295)
Operating transfers out	-
Net change in cash balances	$ (532,295)
Cash balances, beginning of year	3,535,215
Cash balances, end of year	$ 3,002,920
Cash basis fund balances:	
Reserved for customer deposits	$ 203,269
Unreserved	2,799,651
Total cash basis fund balances	$ 3,002,920

The Notes to Financial Statements are an integral part of this statement.

Note 1. Significant Accounting Policies

The Creston City Water Works is a governmental subdivision of the State of Iowa located in Union County. It was incorporated in the mid 1930's. The Water Works Board of Trustees is appointed by the Mayor of Creston and approved by the Creston City Council. The Water Works provides water services to Creston area residents and surrounding counties.

Reporting Entity:

The financial statements include all funds of the Creston City Water Works. The Water Works has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Works to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Works.

The Creston City Water Works is a component unit of the City of Creston.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Water Works. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Water Works' nonfiduciary net assets. Net assets are reported in two categories:

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

Note 1. Significant Accounting Policies (continued):

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Water Works reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

Basis of Accounting:

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Note 1. Significant Accounting Policies (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Deposits and Investments

The Water Works' deposits 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 members of the pool to insure there will be no loss of public funds.

The Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificate of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Water Works' investments are categorized to give an indication of the level of risk assumed by the Water Works at year-end. The Water Works' investment at June 30, 2010, consisted of Certificates of Deposits and are not subject to risk categorization.

Note 3. Pension and Retirement Benefits

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

Note 3. Pension and Retirement Benefits (continued)

Most regular plan members are required to contribute 4.30% of their annual salary and the Water Works is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Water Works' contribution to IPERS for the year ended June 30, 2010, 2009, and 2008 were $48,023, $42,359, and $39,015 respectively, equal to the required contribution for the year.

Note 4. Related Parties

The City of Creston has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

The Water Works determines fees charged to users and also charges the City for usage. The Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The Water Works remitted $1,213,371 for sewer rental and $568,173 for garbage collections to the City for the year ended June 30, 2010. The Water Works received from the City $6,417 for utilities.

The Creston City Water Works and City of Creston are covered under the same property insurance policy. Each year the City pays the total premium and the Water Works reimburses the City for its share of the cost.

During the year ended June 30, 2010, the City provided employees of both the City and Water Works with payments of co-insurance and deductibles for health insurance. The Water Works remitted to the City $134,848 for health insurance premiums for the year ended June 30, 2010. The City's plan is self-funded and pays claims from its employee benefits special revenue fund up to maximum limits and carries stop loss insurance for claims in excess of limits.

Note 5. Compensated Absences

Water Works' employees accumulate a limited amount of earned but unused leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Works until used or paid. The Water Works approximate liability for earned leave termination payments payable to employees at June 30, 2010, is as follows:

Note 5. Compensated Absences (continued)

Type of Benefit	Amount
Compensated absences	$ 59,709

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

Note 6. Risk Management

The Creston City Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Major Customer

A material part of the Water Works' business is dependent upon Southern Iowa Rural Water Association (SIRWA), the loss of which could have a materially adverse effect on the Water Works. During the year ended June 30, 2010, SIRWA accounted for approximately 78% of the water sales. The Water Works has a contract to provide water to SIRWA through April, 2032.

Note 8. Subsequent Event

Management has evaluated subsequent events through September 3, 2010, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CRESTON CITY WATER WORKS
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2010

	Actual	Less Garbage and Sewer not Budgeted for	Creston City Water Works Net Actual
RECEIPTS:			
Property tax	$ -	$ -	$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Use of money and property	59,455	-	59,455
Intergovernmental	4,259,211	-	4,259,211
Charges for services	3,798,980	1,781,544	2,017,436
Special assessments	-	-	-
Miscellaneous	92,457	-	92,457
Total receipts	$ 8,210,103	$ 1,781,544	$ 6,428,559
DISBURSEMENTS:			
Public safety	$ -	$ -	$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Business type activities	8,742,398	1,781,544	6,960,854
Total disbursements	$ 8,742,398	$ 1,781,544	$ 6,960,854
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (532,295)	$ -	$ (532,295)
OTHER FINANCING SOURCES, NET	-	-	-
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	$ (532,295)	$ -	$ (532,295)
BALANCE BEGINNING OF YEAR	3,535,215	-	3,535,215
BALANCE END OF YEAR	$ 3,002,920	$ -	$ 3,002,920

The Notes to Financial Statements are an integral part of this statement.

Final City of Creston Published Budget	Less City of Creston Budget	Creston City Water Works Budget	Water Works Variance Favorable (Unfavorable)
$ 2,045,510	$ 2,045,510	$ -	$ -
767,115	767,115	-	-
1,054,617	1,054,617	-	-
36,850	36,850	-	-
122,352	122,352	-	59,455
1,763,207	1,763,207	-	4,259,211
17,448,955	3,012,880	14,436,075	(12,418,639)
-	-	-	-
252,486	252,486	-	92,457
$ 23,491,092	$ 9,055,017	$14,436,075	$ (8,007,516)
$ 1,318,561	$ 1,318,561	$ -	$ -
1,904,806	1,904,806	-	-
-	-	-	-
582,284	582,284	-	-
35,300	35,300	-	-
2,360,867	2,360,867	-	-
1,039,920	1,039,920	-	-
123,802	123,802	-	-
16,244,973	1,808,898	14,436,075	7,475,221
$ 23,610,513	$ 9,174,438	$14,436,075	$ 7,475,221
$ (119,421)	$ (119,421)	$ -	$ (532,295)
-	-	-	-
$ (119,421)	$ (119,421)	$ -	$ (532,295)
6,376,055	6,376,055	-	
$ 6,256,634	$ 6,256,634	$ -	

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Water Works' budget is submitted with the City of Creston's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Water Works budget is included in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

CRESTON CITY WATER WORKS
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2010

Schedule 1

OBLIGATION	Date Of Issue	Interest Rate	Amount Originally Issued
Revenue Bonds:	03-21-79	4.012	$ 1,198,000
	07-01-80	4.371	600,000

See accompanying independent auditor's report.

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Coupons Due and Unpaid
$ 474,675	$ -	$474,675	$ -	$ 10,713	$ -
257,336	-	257,336	-	6,337	-
$ 732,011	$ -	$732,011	$ -	$ 17,050	$ -

CRESTON CITY WATER WORKS
UNAUDITED SCHEDULE OF OPERATING STATISTICS
Year Ended June 30, 2010

Schedule 2

	Year Ended June 30,		
	2010	2009	2008
Number of customers	3,419	3,425	3,413
Number of gallons billed	1,165,075,629	1,217,684,403	1,200,982,737
Number of gallons pumped	1,222,348,074	1,269,412,000	1,246,006,000
% of gallons billed to total pumped	95%	96%	96%

Water rates in effect at June 30, 2010

Cubic Feet Used Per Month	Rate Per 100 Cubic Feet of Usage
0 - 2,000	$ 2.54*
2,001 - 8,000	1.95
8,001 - 32,000	1.56
32,001 and over	1.25

*Minimum charge per month is $7.12

The Water Works and the City of Creston are covered under one insurance policy. The Water Works reimburses the City annually for its portion of the insurance premium. At June 30, 2010, the following coverages were in effect:

Fire and extended coverage:	
Buildings and contents	$14,427,710
Liability:	
Umbrella excess policy	3,000,000
Linebacker liability	1,000,000
Workmen's compensation	Statutory
Comprehensive automobile policy	1,000,000
Employee Benefit Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Employees crime coverage	200,000
Bond on Water Works manager	350,000

The foregoing operating statistics and insurance information are presented on the basis of unaudited records maintained in the Water Works office. The amounts and accuracy of the operating statistics were not investigated by the auditors.

See accompanying independent auditor's report.

CRESTON CITY WATER WORKS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

Schedule 3

Federal grantor/pass-through grant/program name	Federal CFDA* Number	Total Federal Expenditures
U. S. Department of Housing and Urban Development:		
Iowa Department of Economic Development		
City of Creston, Iowa:		
Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii	14.228	$ 266,108
Union County, Iowa:		
ARRA - Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii	14.228	153,019
		$ 419,127
U. S. Department of Homeland Security:		
Iowa Department of Public Defense:		
Iowa Homeland Security and Emergency Management Division:		
Federal Emergency Management Agency		
Disaster grants - public assistance	97.036	$ 99,317
Total federal expenditures		$ 518,444

*Catalog of Federal Domestic Assistance

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Creston City Water Works and is presented in conformity with another comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Creston City Water Works

We have audited the accompanying statements of activities and net assets and statement of cash receipts, disbursements, and changes in cash balance of the business- type activities of Creston City Water Works, as of and for the year ended June 30, 2010, which collectively comprise the Creston City Water Works' basic financial statements and have issued our report thereon dated September 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Creston City Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Creston City Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Creston City Water Works' internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as

defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creston City Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items

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

Creston City Water Works' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Creston City Water Works' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Draper, Snodgrass, Mickelson + Co., P.C.

September 3, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of the
Creston City Water Works

Compliance

We have audited the compliance of Creston City Water Works, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Creston City Water Works' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Creston City Water Works' management. Our responsibility is to express an opinion on the Creston City Water Works' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB-Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Creston City Water Works' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Creston City Water Works' compliance with those requirements.

In our opinion, the Creston City Water Works complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Creston City Water Works is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Creston City Water Works' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Creston City Water Works' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not decided to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items to be significant deficiencies.

Creston City Water Works' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Creston City Water Works' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the management, Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Draper, Snodgrass, Mickelson & Co., P.C.

September 3, 2010

CRESTON CITY WATER WORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

PART 1. SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

a. An unqualified opinion was issued on the financial statements.

b. Significant deficiencies in internal control over financial reporting were reported by the audit of the financial statements and no material weaknesses were reported.

c. The audit did not disclose any noncompliance which is material to the financial statements.

d. Significant deficiencies in internal control over major programs were reported by the audit of the financial statements and no material weaknesses were reported.

e. An unqualified opinion was issued on compliance with requirements applicable to each major program.

f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133 Section 510(a).

g. Major programs were as follows:

CFDA Number 14.228 – Community Development Block Grants/State Programs and Non-Entitlement Grants in Hawaii

h. The dollar threshold used to distinguish between type a and type b programs was $300,000.

i. Creston City Water Works did not qualify as a low risk auditee.

PART II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

2010-II-A Segregation of duties: A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Creston City Water Works.

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

Response: We have reviewed this recommendation and we will review our procedures to obtain the maximum control possible.

Auditor's Conclusion: Response acknowledged.

2010-II-B Payment of credit card charges from statement: The Water Works on occasion uses a credit card to order items or to charge for services to be used by the Organization. A monthly statement is then received with the charges listed for that period. The receipts are then compared to the listed charges for propriety and accuracy. However, during our audit, a credit card statement was paid without any of the detailing charge receipts attached to support the charges for the period as to Water Works business.

Recommendation: We recommend that to support the charges on the credit card for the period are properly for Water Works business that the supporting charge receipts and other supporting information be attached to the statement prior to approval for payment.

Response: We have reviewed the recommendation and found that all receipts were on file at the Water Works' office but were not attached to the statement. This has been corrected. The original receipts are not stapled to the statement in our record files. The Water Works in the future will attach all original receipts to the credit card bill and filed as requested.

Auditor's Conclusion: Response acknowledged.

2010-II-C Contract for services and payment: An agreement for services was entered into by the Water Works but was approved by the Board three months after services began and payments had been made. The agreement did not include any results that were to be achieved or the time frame that it would take to complete the necessary services or the amount of the compensation to be paid under the agreement. A statement from the party to the agreement only stated that they were responsible for any liability for injury while working for the Water Works.

Recommendation: It is recommended that agreements entered into by the Water Works include the time frame and the services, the desired outcome for the services and the specified amount of compensation to be earned for the services. The agreement should also be approved by the Board prior to any services being performed or payments made.

Response: We have reviewed the recommendation and we will review our procedure for procurement of contracted labor as requested.

Auditor's Conclusion: Response acknowledged.

PART III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Instances of Noncompliance

No matters were reported.

Significant Deficiencies:

2010-III-A Segregation of Duties: A limited number of people have the primary responsibility for most of the account and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Organization. See audit finding 2010-II-A.

PART IV. Other Findings Related to Required Statutory Reporting:

2010-IV-A Depository Banks - A resolution naming official depositories has been adopted by the board of trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2010.

2010-IV-B Certified Budget - Water Works' expenditures during the year ended June 30, 2010, did not exceed amounts budgeted.

2010-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2010-IV-D Travel Expense - No expenditures of Water Works' money for travel expenses of spouses of Water Works' officials or employees were noted.

2010-IV-E Business Transactions – No business transactions between the Water Works and Water Works' officials or employees were noted.

2010-IV-F Bond Coverage - Surety bond coverage of Water Works' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2010-IV-G Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

The Water Works published all annual gross salaries as required by an Attorney General's opinion dated April 12, 1979.

(a) Although the Board minutes were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Auditor's Recommendation - We recommend the Water Works comply with Chapter 372.13(6) of the Code of Iowa.

Water Works' Response - The Creston City Water Works Board of Trustees meets once a month on the second Tuesday of the month. The minutes from the previous meeting need to be approved by the Board before publication. This requires 30-35 days before publication can be met. The City of Creston Water Works will request modification to the Code of Iowa so publication requirements can be met.

Auditor's Conclusion - Response acknowledged.

2010-IV-H Revenue Bonds - The Water Works has complied with the provisions of the revenue bond indentures.

2010-IV-I Deposits and Investments - The Water Works has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.