

**CHARITON MUNICIPAL WATERWORKS
CHARITON, IOWA**

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

June 30, 2011

**Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325**

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-9
Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A	11
Notes to Financial Statement		12-16
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)		18
Notes to Required Supplementary Information - Budgetary Reporting		19
Other Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - Enterprise Fund Accounts	1	21-23
Schedule of Indebtedness	2	24
Bond Maturities	3	25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>		26-27
Schedule of Findings		28-30

CHARITON MUNICIPAL WATERWORKS

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before August, 2010)	
George Holder	Chairman	December 31, 2015
Roger Bingham	Vice-Chairman	December 31, 2011
Byron Welch	Secretary	December 31, 2013
Bruce Hamersley	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite
	(Effective August, 2010)	
Roger Bingham	Chairman	December 31, 2011
Shelly Lenzine	Vice-Chairman	December 31, 2013
George Holder	Secretary	December 31, 2015
Bruce Hamersley	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite

Chariton Municipal Waterworks

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report

To the Board of Trustees of the
Chariton Municipal Waterworks:

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2011. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

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

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

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Chariton Municipal Waterworks as of June 30, 2011, 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 November 30, 2011, on our consideration of the Chariton Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 18 through 19 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

Peak & Co., LLP
Certified Public Accountants

November 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

2011 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks decreased 37%, or approximately \$1,064,000, from fiscal 2010 to fiscal 2011.

Disbursements decreased 19%, or approximately \$455,000, from fiscal 2010 to fiscal 2011.

The Waterworks total cash basis net assets decreased 11%, or approximately \$122,000, from June 30, 2010 to June 30, 2011.

The significant decrease in receipts is due primarily to not receiving bond money in fiscal 2011 compared to fiscal 2010. The significant decrease in disbursements is due to a pay off of an old revenue bond issue in fiscal 2010, with nothing similar in fiscal 2011.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the individual Enterprise Fund Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2011.

FINANCIAL ANALYSIS OF THE CHARITON MUNICIPAL WATERWORKS

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

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

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, taps and miscellaneous fees. Receipts also include revenue bond proceeds. The City of Chariton pays the Chariton Municipal Waterworks contract fees to include sewer charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2011	2010
Receipts:		
Use of money and property	\$ 16,062	\$ 17,801
Charges for service	1,217,489	1,200,898
Miscellaneous	34,850	54,446
Sewer rental collections	564,728	560,733
Revenue bond proceeds	-	1,063,177
Total receipts	1,833,129	2,897,055
Disbursements		
Plant operation and maintenance	271,776	307,392
Distribution expenses	241,977	213,128
Accounting and collection	164,286	166,992
Administration and other expenses	205,634	194,590
Capital improvements	97,442	89,151
Sewer rental disbursed to City	564,728	560,733
Debt service:		
Principal paid	162,000	656,000
Interest and trustee fees paid	44,863	47,052
Capital projects	202,181	174,703
Total disbursements	1,954,887	2,409,741
Net change in cash basis net assets	(121,758)	487,314
Cash basis net assets beginning of year	1,128,897	641,583
Cash basis net assets end of year	\$ 1,007,139	\$ 1,128,897

In fiscal year 2011, receipts decreased \$1,063,926, or 36.7%, from 2010. The decrease was primarily due to not receiving revenue bond proceeds in fiscal 2011. In fiscal 2011, disbursements decreased \$454,854, or 18.9%. The decrease was primarily due to the pay off of an old revenue bond issue in fiscal 2010, with nothing similar in fiscal 2011.

The smaller portions of the Waterworks' net assets (41%) are restricted for the repayment of revenue bonds issued, customer water deposits, and unspent revenue bond proceeds. The remaining net assets (59%) are unrestricted net assets available for use in routine operations of the distribution and administrative areas of the Waterworks and for capital improvements to the distribution areas.

BUDGETARY HIGHLIGHTS

The Chariton Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the year, there were no budget amendments.

DEBT ADMINISTRATION

At June 30, 2011, the Waterworks had \$1,456,000 in revenue notes and revenue bonds outstanding, compared to \$1,618,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Chariton Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2012 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged.

CONTACTING THE CHARITON MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT

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

Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

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

Year ended June 30, 2011

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	\$ 1,217,489
Miscellaneous	<u>34,850</u>
Total operating receipts	<u>1,252,339</u>
Operating disbursements:	
Business type activities	<u>981,115</u>
Total operating disbursements	<u>981,115</u>
Excess of operating receipts over operating disbursements	<u>271,224</u>
Non-operating receipts (disbursements):	
Interest on investments	8,022
Rent	8,040
Sewer fees collected for City	564,728
Sewer fees remitted to City	(564,728)
Debt service	(206,863)
Capital projects	<u>(202,181)</u>
Net non-operating receipts (disbursements)	<u>(392,982)</u>
Change in cash basis net assets	(121,758)
Cash basis net assets beginning of year	<u>1,128,897</u>
Cash basis net assets end of year	<u><u>\$ 1,007,139</u></u>
Cash Basis Net Assets	
Restricted for:	
Customer water deposits	\$ 93,473
Bond principal and interest payments	16,960
Bond reserve	108,500
Unspent bond proceeds	<u>189,850</u>
Total restricted net assets	408,783
Unrestricted	<u>598,356</u>
Total cash basis net assets	<u><u>\$ 1,007,139</u></u>

See notes to financial statement.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise 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 an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

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

D. Restricted Assets and Net Assets

Funds set aside for customer water deposits, bond principal and interest payments, bond reserve and unspent bond proceeds are classified as restricted.

E. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2011 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.

Note 2. Cash and Pooled Investments (continued)

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

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

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

Note 3. Water Revenue Bonds Payable

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

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 37,000	\$ 18,630	\$ 125,000	\$ 21,602	\$ 162,000	\$ 40,232
2013	38,000	17,520	130,000	19,415	168,000	36,935
2014	38,000	16,380	110,000	16,815	148,000	33,195
2015	39,000	15,240	110,000	14,285	149,000	29,525
2016	40,000	14,070	115,000	11,425	155,000	25,495
2017	40,000	12,870	120,000	8,090	160,000	20,960
2018	41,000	11,670	125,000	4,250	166,000	15,920
2019	41,000	10,440	-	-	41,000	10,440
2020	42,000	9,210	-	-	42,000	9,210
2021	43,000	7,950	-	-	43,000	7,950
2022	43,000	6,660	-	-	43,000	6,660
2023	44,000	5,370	-	-	44,000	5,370
2024	45,000	4,050	-	-	45,000	4,050
2025	45,000	2,700	-	-	45,000	2,700
2026	45,000	1,350	-	-	45,000	1,350
	<u>\$ 621,000</u>	<u>\$ 154,110</u>	<u>\$ 835,000</u>	<u>\$ 95,882</u>	<u>\$ 1,456,000</u>	<u>\$ 249,992</u>

Water Revenue Bonds

On August 7, 2006, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$800,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2007 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

Note 3. Water Revenue Bonds Payable (continued)

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

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

Water Revenue Improvement and Refunding Bonds

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

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) A reserve fund shall be established and maintained in the amount of \$108,500.
- (c) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 125% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (d) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (e) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006, and \$1,085,000 in water revenue improvement and refunding bonds issued in 2009. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 76 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,705,992. For the current year, principal and interest paid and total customer net receipts were \$205,218 and \$271,224, respectively.

Note 4. Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the Waterworks is required to contribute 6.95% of covered salary. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$22,155, \$20,752 and \$20,385, respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits (OPEB)

Plan Description – The Waterworks operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 9 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 fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$600.05 for single coverage, \$1,228.91 for employee/spouse coverage, \$1,135.90 for employee/children coverage, and \$1,841.56 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the Waterworks contributed \$85,932 and plan members eligible for benefits contributed \$12,827 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2011 is \$21,990. The liability has been computed based on rates of pay in effect at June 30, 2011.

Note 7. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$3,331 during the year ended June 30, 2011.

Note 8. Risk Management

The Chariton Municipal Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Contingency

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

Note 10. Commitments

In fiscal year 2011, the Waterworks entered into a contract for a new generator. The total cost of the project is approximately \$40,000. This project will begin in fiscal year 2012. These costs will be paid for from existing cash reserves, and it is anticipated that this project will be completed in fiscal year 2012.

Note 11. Subsequent Events

The Waterworks has evaluated subsequent events through November 30, 2011, which is the date that the financial statements were available to be issued.

Required Supplementary Information

CHARITON MUNICIPAL WATERWORKS

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

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2011

	Actual	Budgeted Amounts Original and Final	Final to Net Variance
Receipts:			
Use of money and property	\$ 16,062	\$ 12,200	\$ 3,862
Charges for service	1,782,217	1,899,100	(116,883)
Miscellaneous	34,850	16,100	18,750
Total receipts	1,833,129	1,927,400	(94,271)
Disbursements:			
Business type activities	1,954,887	2,227,400	272,513
Excess (deficiency) of receipts over (under) disbursements	(121,758)	(300,000)	178,242
Other financing sources (net)	-	300,000	(300,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(121,758)	-	(121,758)
Cash basis net assets beginning of year	1,128,897	-	1,128,897
Cash basis net assets end of year	\$ 1,007,139	\$ -	\$ 1,007,139

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

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

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. There were no budget amendments for the Waterworks during the year ended June 30, 2011.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

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

Year ended June 30, 2011

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
OPERATING RECEIPTS:						
Charge for service -						
Sale of water to meter customers	\$1,172,274	\$ -	\$ -	\$ -	\$ -	\$1,172,274
Sales of water - tank service	6,138	-	-	-	-	6,138
Meter fee	21,884	-	-	-	-	21,884
Collection fee from City	12,000	-	-	-	-	12,000
Sale of supplies and labor	5,193	-	-	-	-	5,193
	<u>1,217,489</u>	-	-	-	-	<u>1,217,489</u>
Miscellaneous -						
Refunds and reimbursements	17,607	-	-	-	-	17,607
Customer deposits	-	10,400	-	-	-	10,400
Miscellaneous	6,843	-	-	-	-	6,843
	<u>24,450</u>	<u>10,400</u>	-	-	-	<u>34,850</u>
Total operating receipts	<u>1,241,939</u>	<u>10,400</u>	-	-	-	<u>1,252,339</u>
OPERATING DISBURSEMENTS:						
Business type activities -						
Water -						
Plant operation and maintenance -						
Salaries	125,613	-	-	-	-	125,613
Power and propane	50,225	-	-	-	-	50,225
Chemicals	74,351	-	-	-	-	74,351
Supplies	6,746	-	-	-	-	6,746
Telephone	1,921	-	-	-	-	1,921
Security cameras	948	-	-	-	-	948
Miscellaneous and safety	1,739	-	-	-	-	1,739
Maintenance material	9,054	-	-	-	-	9,054
Maintenance labor	1,179	-	-	-	-	1,179
	<u>271,776</u>	-	-	-	-	<u>271,776</u>
Distribution expenses -						
Salaries	111,163	-	-	-	-	111,163
Vehicle expense	18,550	-	-	-	-	18,550
Insurance	42,747	-	-	-	-	42,747
Supplies	3,759	-	-	-	-	3,759
Utilities	11,394	-	-	-	-	11,394
Telephone	2,345	-	-	-	-	2,345
Miscellaneous and safety	492	-	-	-	-	492
Maintenance material	47,700	-	-	-	-	47,700
Maintenance labor	3,827	-	-	-	-	3,827
	<u>241,977</u>	-	-	-	-	<u>241,977</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

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

Year ended June 30, 2011

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
OPERATING DISBURSEMENTS						
(continued) -						
Business type activities (continued) -						
Water (continued) -						
Accounting and collection -						
Salaries	\$ 78,818	\$ -	\$ -	\$ -	\$ -	\$ 78,818
Meter reading	6,146	-	-	-	-	6,146
Office supplies	3,568	-	-	-	-	3,568
Sales tax	55,221	-	-	-	-	55,221
Postage	10,136	-	-	-	-	10,136
Telephone	2,714	-	-	-	-	2,714
Utilities	4,052	-	-	-	-	4,052
Miscellaneous and safety	3,631	-	-	-	-	3,631
	<u>164,286</u>	-	-	-	-	<u>164,286</u>
Administration and other expenses -						
Engineering and legal	18,955	-	-	-	-	18,955
Employee benefits	150,380	-	-	-	-	150,380
Audit and filing fee	4,075	-	-	-	-	4,075
Miscellaneous and safety	16,092	-	-	-	11	16,103
Building expense	6,419	-	-	-	-	6,419
Customer deposits	-	9,702	-	-	-	9,702
	<u>195,921</u>	<u>9,702</u>	-	-	<u>11</u>	<u>205,634</u>
Capital improvements -						
Materials	3,510	-	-	-	-	3,510
Meters	20,335	-	-	-	-	20,335
Office equipment	700	-	-	-	-	700
Plant improvements	7,843	-	-	-	-	7,843
Distribution improvements	26,448	-	-	-	-	26,448
Vehicles	38,606	-	-	-	-	38,606
	<u>97,442</u>	-	-	-	-	<u>97,442</u>
Total operating disbursements	<u>971,402</u>	<u>9,702</u>	-	-	<u>11</u>	<u>981,115</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>270,537</u>	<u>698</u>	-	-	<u>(11)</u>	<u>271,224</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

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

Year ended June 30, 2011

	General	Customer Deposit	Debt Service	Improve - ment	Bond	Total
NON-OPERATING RECEIPTS (DISBURSEMENTS):						
Interest on investments	\$ 1,069	\$ 2	\$ -	\$ 3,914	\$ 3,037	\$ 8,022
Rent	8,040	-	-	-	-	8,040
Miscellaneous -						
Sewer rental collections	564,728	-	-	-	-	564,728
Sewer rental disbursed to City	(564,728)	-	-	-	-	(564,728)
Debt service -						
Principal redemption	-	-	(162,000)	-	-	(162,000)
Interest paid	-	-	(43,218)	-	-	(43,218)
Service fees	-	-	(1,645)	-	-	(1,645)
Capital projects	(202,181)	-	-	-	-	(202,181)
Total non-operating receipts (disbursements)	(193,072)	2	(206,863)	3,914	3,037	(392,982)
Excess (deficiency) of receipts over (under) disbursements	77,465	700	(206,863)	3,914	3,026	(121,758)
Operating transfers in (out)	(28,067)	-	206,559	20,400	(198,892)	-
Net change in cash basis net assets	49,398	700	(304)	24,314	(195,866)	(121,758)
Cash basis net assets, beginning of year	234,985	92,773	125,764	289,659	385,716	1,128,897
Cash basis net assets, end of year	\$ 284,383	\$ 93,473	\$ 125,460	\$ 313,973	\$ 189,850	\$1,007,139

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08-07-06	3.00%	\$ 800,000
Water Revenue Improvement and Refunding Bonds	10-29-09	1.30%-3.40%	1,085,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-07-06	\$ 658,000	\$ -	\$ 37,000	\$ 621,000	\$ 19,740	\$ -
10-29-09	960,000	-	125,000	835,000	23,478	-
Total	\$ 1,618,000	\$ -	\$ 162,000	\$ 1,456,000	\$ 43,218	\$ -

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 3

BOND MATURITIES

June 30, 2011

Year Ending June 30,	Water Revenue Bonds Issued August 7, 2006		Water Revenue Improvement and Refunding Bonds Issued October 29, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	
2012	3.00%	\$ 37,000	1.75%	\$ 125,000	\$ 162,000
2013	3.00%	38,000	2.00%	130,000	168,000
2014	3.00%	38,000	2.30%	110,000	148,000
2015	3.00%	39,000	2.60%	110,000	149,000
2016	3.00%	40,000	2.90%	115,000	155,000
2017	3.00%	40,000	3.20%	120,000	160,000
2018	3.00%	41,000	3.40%	125,000	166,000
2019	3.00%	41,000	-	-	41,000
2020	3.00%	42,000	-	-	42,000
2021	3.00%	43,000	-	-	43,000
2022	3.00%	43,000	-	-	43,000
2023	3.00%	44,000	-	-	44,000
2024	3.00%	45,000	-	-	45,000
2025	3.00%	45,000	-	-	45,000
2026	3.00%	45,000	-	-	45,000
		<u>\$ 621,000</u>		<u>\$ 835,000</u>	<u>\$ 1,456,000</u>

See accompanying independent auditor's report.

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance
with Government Auditing Standards

To the Board of Trustees of the
Chariton Municipal Waterworks:

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed 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, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

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 a material misstatement of Chariton Municipal Waterworks financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-11 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Waterworks operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Peak & Co., LLP
Certified Public Accountants

November 30, 2011

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Part I: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

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

Response – We will consider this.

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

I-B-11 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

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

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

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks. Disbursements during the year ended June 30, 2011, did not exceed the amounts budgeted.
- II-B-11 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-11 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- II-D-11 Business Transactions - Business transactions between the Waterworks and Waterworks officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son owns Savage Dirt Works	Hauling	\$ 2,471
Mark Savage, Employee, Brother owns ARS Construction	Construction	\$ 860

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions with the owner of Savage Dirt Works does not appear to represent a conflict of interest since the amount paid to this vendor was procured through sealed competitive bids.

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

- II-E-11 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverages should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-11 Board of Trustee Minutes - A transaction was found that we believe should have been approved in the trustee minutes but was not. In this case, the vendor was approved, but the related claim amount paid was not documented in the trustee minutes, nor was the invoice amount published in the newspaper, as required by Chapter 388.4 of the Code of Iowa.

Recommendation - The Waterworks implement procedures to ensure all invoices including the related claim amounts, are published in the newspaper, as required by the Code of Iowa.

Response - The invoice not published was an oversight on our part. In the future, we will implement this recommendation.

Conclusion - Response accepted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

II-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

II-H-11 Revenue Notes and Bonds - No instances of non-compliance with the water revenue note and bond resolutions were noted.

II-I-11 Payroll/Compliance Issues – An instance was noted in which an IRS 1099-Misc form was not issued as required.

Written authorizations for payroll withholdings were not consistently retained.

Recommendation – IRS 1099-Misc. forms should be issued as required, and written authorization should be retained for all payroll withholdings.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

II-J-11 Public Improvements – The Waterworks did not publish a notice of public hearing, nor was a public hearing held on a water tower repair project and sludge project as required by Chapters 26.12 and 362.3 of the Code of Iowa. For the water tower repair project and sludge project, there were no change orders for changes in project scope or changes in quantities which vary from the original bid.

Recommendation – To ensure compliance with the Code of Iowa, before entering into a contract for a public improvement with an estimated total cost in excess of \$100,000, the Waterworks should hold a public hearing and give notice at least four but not more than twenty days prior to the hearing. In addition, change orders should be prepared and approved for changes in project scope or changes in quantities which vary from the original bid.

Response – We will implement these recommendations on future projects.

Conclusion – Response accepted.

II-K-11 Billings – For 1 of 25 billings tested, it appears that one customer was under billed water usage.

Recommendation – The Waterworks implement procedures to ensure all customers are billed the correct amounts.

Response – We will review this error, and implement procedures to ensure that all customers are billed the correct amounts for utility usage.

Conclusion – Response accepted.