ALBIA MUNICIPAL WATERWORKS
ALBIA, 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

		Page
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-9
Financial Statement:	Exhibit	
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:	Schedule	
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 and Note 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 Government Auditing Standards		26-27
Schedule of Findings		28-29

ALBIA MUNICIPAL WATERWORKS

OFFICIALS

Name	Title	Term Expires
John Scieszinski	Chairman	April 2, 2013
Jack Scieszinski	Secretary	April 2, 2017
Charlie Sinnott	Trustee	April 2, 2015
Patty Stuchel	Office Manager	Indefinite
Amy Robinson	Clerk	Indefinite

Albia 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
Albia Municipal Waterworks:

We have audited the accompanying financial statement of the Albia Municipal Waterworks, Albia, 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 Albia Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Albia 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 Albia 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 December 11, 2011 on our consideration of the Albia 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

December 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Albia Municipal 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 statements, which follows.

2011 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks decreased 2%, or approximately $20,699, from fiscal 2010 to fiscal 2011.

Disbursements decreased 8%, or approximately $98,709, from fiscal 2010 to fiscal 2011.

The Waterworks total cash basis net assets decreased 7%, or approximately $17,129, from June 30, 2010 to June 30, 2011.

The significant decrease in disbursements is due to costs incurred to demolish the plant in fiscal year 2010, and a decrease in the amount of debt service payments in fiscal year 2011, compared to fiscal year 2010.

USING THIS ANNUAL REPORT

The Albia 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 Albia 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 Albia Municipal Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Albia 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 and analytical overview of the Albia Municipal Waterworks financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Albia 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 ALBIA 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 Albia 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 Albia 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, rent for space on the water tower, taps and miscellaneous fees. Receipts also include the sale of capital assets and scrap. The City of Albia pays the Albia Municipal Waterworks contract fees to include sewer and landfill charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 is presented below:

Changes in Cash Basis Net Assets

	Years ended June 30,	
	2011	2010
Receipts:		
Use of money and property	$ 12,171	$ 9,604
Charges for service	744,429	745,767
Sewer and landfill fees collected for City	334,119	333,943
Miscellaneous	72,039	82,168
Sale of equipment and scrap	-	11,975
Total receipts	$1,162,758	$1,183,457
Disbursements:		
Distribution expenses	$ 112,836	$ 107,507
Distribution outlay	32,880	56,036
Administration and other expenses	553,431	533,912
Sewer and landfill fees remitted to City	334,562	334,924
Plant expense	-	30,425
Debt service:		
Principal paid	63,000	146,000
Interest and trustee fees paid	37,992	40,420
Capital projects	45,186	29,372
Total disbursements	$1,179,887	$1,278,596
Net change in cash basis net assets	(17,129)	(95,139)
Cash basis net assets beginning of year	253,842	348,981
Cash basis net assets end of year	$ 236,713	$ 253,842

In fiscal year 2011, receipts decreased $20,699, or 2%, from 2010. In fiscal 2011, disbursements decreased $98,709, or 8%.

The smaller portions of the Waterworks' net assets (26%) are unrestricted net assets available for use in routine operations of the distribution and administrative areas of the Waterworks and for capital improvements to the distribution areas. The remaining net assets (74%) are restricted for the repayment of the revenue bonds issued and the customer water deposits.

BUDGETARY HIGHLIGHTS

The Albia Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Albia. During the year, one budget amendment increased budgeted disbursements by $43,400 and budgeted receipts $7,700.

DEBT ADMINISTRATION

At June 30, 2011, the Waterworks had $1,106,000 in revenue notes, revenue bonds outstanding, compared to $1,169,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Albia Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2012 budget, including water main replacements, upkeep of current mains and fees that will be charged. We have raised our water rates effective in fiscal year 2012. This rate increase was done because our supplier raised the water rates that we are charged.

CONTACTING THE ALBIA 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 information, contact John Scieszinski, Albia Municipal Waterworks Chairman, 120 South A Street, Albia, IA 52531.

Financial Statement

ALBIA MUNICIPAL WATERWORKS

Exhibit A

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

Year ended June 30, 2011

	Enterprise Fund Water
Operating receipts:	
Charges for service	$ 744,429
Miscellaneous	72,039
Total operating receipts	816,468
Operating disbursements:	
Business type activities	699,147
Total operating disbursements	699,147
Excess of operating receipts over operating disbursements	117,321
Non-operating receipts (disbursements):	
Interest on investments	3,771
Sewer and Landfill fees collected for City	334,119
Tower and ground space lease	8,400
Sewer and Landfill fees remitted to City	(334,562)
Debt service	(100,992)
Capital outlay	(45,186)
Net non-operating receipts (disbursements)	(134,450)
Change in cash basis net assets	(17,129)
Cash basis net assets beginning of year	253,842
Cash basis net assets end of year	$ 236,713
Cash Basis Net Assets	
Restricted for:	
Bond principal and interest payments	$ 86,633
Customer water deposits	88,316
Total restricted net assets	174,949
Unrestricted	61,764
Total cash basis net assets	$ 236,713

See notes to financial statement.

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Albia Municipal Waterworks is a component unit of the City of Albia, 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 Albia 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 bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

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

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.

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.

Note 2. Cash and Pooled Investments (continued)

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	Water Revenue Bonds		Total	
June 30,	Principal	Interest	Principal	Interest
2012	$ 65,000	$ 33,180	$ 65,000	$ 33,180
2013	67,000	31,230	67,000	31,230
2014	69,000	29,220	69,000	29,220
2015	71,000	27,150	71,000	27,150
2016	73,000	25,020	73,000	25,020
2017	75,000	22,830	75,000	22,830
2018	77,000	20,580	77,000	20,580
2019	80,000	18,270	80,000	18,270
2020	82,000	15,870	82,000	15,870
2021	84,000	13,410	84,000	13,410
2022	87,000	10,890	87,000	10,890
2023	89,000	8,280	89,000	8,280
2024	92,000	5,610	92,000	5,610
2025	95,000	2,850	95,000	2,850
	$ 1,106,000	$ 264,390	$ 1,106,000	$ 264,390

Water Revenue Bonds

On November 23, 2005, 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 $1,250,000 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 $1,250,000 in 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 2006 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay $1,250,000 in water revenue bonds issued in November 2005. The bonds are payable solely from water customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 84 percent of net receipts. The total principal and interest remaining to be paid on the bonds is $1,370,390. For the current year, principal and interest paid and total customer net receipts were $98,070 and $117,321 respectively.

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.

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 $11,792, $10,390 and $9,230, 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 7 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 benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks 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 $488.84 for single coverage and $1,232.12 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the Waterworks contributed $85,929, and plan members eligible for benefits contributed $0 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and personal 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 personal leave termination payments payable to employees at June 30, 2011 is $11,312. The liability has been computed based on rates of pay in effect at June 30, 2011.

Note 7. Office Lease Agreement

The Waterworks and the City of Albia have entered a lease for office space to be occupied by the Waterworks in the Albia City Hall. The lease has a term of thirty years with current rental payments of $150 per month. The thirty year period expires on December 31, 2011.

The lease provides for the annual negotiation of the amount of the lease payments on the anniversary date of the lease. Rental expense under this agreement during the year ended June 30, 2011 was $1,800.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling $81 during the year ended June 30, 2011.

Note 9. Risk Management

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' annual contributions to the Pool for the year ended June 30, 2011 were $9,114.

Note 9. Risk Management (continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to $350,000 per claim. Claims exceeding $350,000 are reinsured in an amount not to exceed $2,650,000 per claim. For members requiring specific coverage from $3,000,000 to $12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to $150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of $1,000,000 each accident, $1,000,000 memo limit and $1,000,000 each employee limit. The Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Commitments/Contingency

The Waterworks has signed a contract to purchase a minimum of 3,000,000 gallons of water a month from the Rathbun Regional Water Association, Inc. This contract is effective through year 2039. Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, Inc., and in fiscal year 2011, over 116,000,000 gallons of water were purchased by the Waterworks. The Waterworks does not have the capability to produce its own water for resale.

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 11. Subsequent Events

The Waterworks has evaluated subsequent events through December 11, 2011, which is the date that the financial statement was available to be issued.

Required Supplementary Information

ALBIA 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

		Budgeted Amounts		Final to Actual
	Actual	Original	Final	Variance
Receipts:				
Use of money and property	$ 12,171	$ 12,500	$ 12,500	$ (329)
Charges for service	1,078,548	1,135,000	1,142,700	(64,152)
Miscellaneous	72,039	72,800	72,800	(761)
Total receipts	1,162,758	1,220,300	1,228,000	(65,242)
Disbursements:				
Business type activities	1,179,887	1,164,308	1,207,708	27,821
Change in cash basis net assets	(17,129)	55,992	20,292	(37,421)
Cash basis net assets beginning of year	253,842	-	-	253,842
Cash basis net assets end of year	$ 236,713	$ 55,992	$ 20,292	$ 216,421

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

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

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted receipts by $7,700 and budgeted disbursements by $43,400. The budget amendment is reflected in the final budgeted amounts.

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

Other Supplementary Information

ALBIA 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	Improvement	Total
OPERATING RECEIPTS:					
Charge for service -					
Sale of water to meter customers	$ 689,261	$ -	$ -	$ -	$ 689,261
Sales of water - tank service	732	-	-	-	732
Collection fee from City	34,746	-	-	-	34,746
Sale of labor	11,174	-	-	-	11,174
Sale of supplies	8,516	-	-	-	8,516
	744,429	-	-	-	744,429
Miscellaneous -					
Sales tax collected	50,902	-	-	-	50,902
Refunds and reimbursements	1,832	-	-	-	1,832
Customer deposits	-	19,305	-	-	19,305
	52,734	19,305	-	-	72,039
Total operating receipts	797,163	19,305	-	-	816,468
OPERATING DISBURSEMENTS:					
Business type activities -					
Water -					
Distribution expenses -					
Labor	87,133	-	-	-	87,133
Truck expense	981	-	-	-	981
Repairs tools and equipment	627	-	-	-	627
Gasoline and oil	4,167	-	-	-	4,167
Supplies	5,567	-	-	-	5,567
Water tests	1,707	-	-	-	1,707
Electric	1,026	-	-	-	1,026
Tower	566	-	-	-	566
Shop fuel	1,169	-	-	-	1,169
Shop telephone	540	-	-	-	540
Part-time labor	6,623	-	-	-	6,623
Clothes	2,730	-	-	-	2,730
	112,836	-	-	-	112,836
Distribution outlay -					
Supplies	5,081	-	-	26,100	31,181
Equipment	1,298	-	-	-	1,298
Part-time labor	401	-	-	-	401
	6,780	-	-	26,100	32,880

ALBIA 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	Improvement	Total
OPERATING DISBURSEMENTS (continued) -					
Business type activities (continued) -					
Water (continued) -					
Administration and other expenses -					
Salaries	$ 77,123	$ -	$ -	$ -	$ 77,123
Customer service wage	25,691	-	-	-	25,691
Postage	6,682	-	-	-	6,682
Supplies	5,334	-	-	-	5,334
Office rent	1,800	-	-	-	1,800
Telephone	3,594	-	-	-	3,594
Publishing	1,255	-	-	-	1,255
Audit and filing fee	3,775	-	-	-	3,775
Customer deposits	-	15,986	-	-	15,986
School	215	-	-	-	215
Dues	1,513	-	-	-	1,513
Insurance	13,949	-	-	-	13,949
Legal	628	-	-	-	628
Maintenance contracts	5,753	-	-	-	5,753
Part time labor	50	-	-	-	50
Equipment	575	-	-	-	575
Employee insurance	86,446	-	-	-	86,446
Sales tax	50,826	-	-	-	50,826
Payroll taxes	26,422	-	-	-	26,422
Employee medical reimbursements	1,939	-	-	-	1,939
Purchased water	223,875	-	-	-	223,875
	537,445	15,986	-	-	553,431
Total operating disbursements	657,061	15,986	-	26,100	699,147
Excess (deficiency) of operating receipts over (under) operating disbursements	140,102	3,319	-	(26,100)	117,321

ALBIA 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	Improvement	Total
NON-OPERATING RECEIPTS (DISBURSEMENTS):					
Interest on investments	$ 3,771	$ -	$ -	$ -	$ 3,771
Miscellaneous -					
Sewer rental collections	317,163	-	-	-	317,163
Landfill charge collections	16,956	-	-	-	16,956
Tower and ground space lease	8,400	-	-	-	8,400
Sewer rental disbursed to City	(317,679)	-	-	-	(317,679)
Landfill charge disbursed to City	(16,883)	-	-	-	(16,883)
Debt service -					
Principal redemption	-	-	(63,000)	-	(63,000)
Interest paid	-	-	(35,070)	-	(35,070)
Service fees	-	-	(2,922)	-	(2,922)
Capital outlay	-	-	-	(45,186)	(45,186)
Total non-operating receipts (disbursements)	11,728	-	(100,992)	(45,186)	(134,450)
Excess (deficiency) of receipts over (under) disbursements	151,830	3,319	(100,992)	(71,286)	(17,129)
Operating transfers in (out)	(231,300)	-	172,800	58,500	-
Net change in cash basis net assets	(79,470)	3,319	71,808	(12,786)	(17,129)
Cash basis net assets, beginning of year	140,251	84,997	14,825	13,769	253,842
Cash basis net assets, end of year	$ 60,781	$ 88,316	$ 86,633	$ 983	$ 236,713

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	11-23-05	3.00%	1,250,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
11-23-05	$1,169,000	$ -	$ 63,000	$1,106,000	$ 35,070	$ -

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 3

BOND AND NOTE MATURITIES

June 30, 2011

Year ending June 30,	Water Revenue Bonds Issued November 23, 2005		
	Interest Rates	Amount	Total
2012	3.00%	$ 65,000	$ 65,000
2013	3.00%	67,000	67,000
2014	3.00%	69,000	69,000
2015	3.00%	71,000	71,000
2016	3.00%	73,000	73,000
2017	3.00%	75,000	75,000
2018	3.00%	77,000	77,000
2019	3.00%	80,000	80,000
2020	3.00%	82,000	82,000
2021	3.00%	84,000	84,000
2022	3.00%	87,000	87,000
2023	3.00%	89,000	89,000
2024	3.00%	92,000	92,000
2025	3.00%	95,000	95,000
		$ 1,106,000	$ 1,106,000

See accompanying independent auditor's report.

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

(515) 277-3077

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Albia Municipal Waterworks:

We have audited the accompanying financial statement of the Albia Municipal Waterworks, Albia, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 11, 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 Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Albia Municipal Waterworks financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 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.

Compliance and Other Matters

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

Albia 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 Albia Municipal Waterworks' responses and, accordingly, we do not express an opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Albia Municipal Waterworks and other parties to whom the Albia 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 Albia 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

December 11, 2011

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Part I: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over financial reporting were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.

II-B-11 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.

II-C-11 Travel Expense - No disbursements 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
Charlie Sinnott, Board Member Part-owner of Jim & Charlie's	Shop supplies	$26
Jack Scieszinski, Board Member Part-owner of Albia Motor Co.	Maintenance	$55

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the 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 coverage shouldbe reviewed annually to ensure that the coverage is adequate for current operations.

II-F-11 Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but was not.

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

II-H-11 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note requirements for the year ended June 30, 2011 were noted.

II-I-11 Taxable Fringe Benefits – Personal use of a City vehicle is not taxed to a Waterworks employee as a taxable fringe benefit, as required by the Internal Revenue Service (IRS) regulations.

Recommendation – Personal use of a Waterworks vehicle should be taxed as a taxable fringe benefit in accordance with IRS regulations.

Response – We will review this.

Conclusion – Response accepted.