

**ALBIA MUNICIPAL WATERWORKS
ALBIA, IOWA**

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

June 30, 2012

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

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ALBIA MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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
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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, 2012. 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, 2012, 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, 2012 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise Albia Municipal Waterworks basic financial statement. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in our audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise Albia Municipal Waterworks basic financial statement. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and pages 18 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statement. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Peak & Co., LLP
Certified Public Accountants

November 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Albia Municipal Waterworks provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2012 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks increased 5%, or approximately \$61,937, from fiscal 2011 to fiscal 2012.

Disbursements increased 5%, or approximately \$54,120, from fiscal 2011 to fiscal 2012.

The Waterworks total cash basis net assets decreased 4%, or approximately \$9,312, from June 30, 2011 to June 30, 2012.

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, readers 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 an 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, 2012.

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. 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, 2012 and June 30, 2011 are presented below:

----- Changes in Cash Basis Net Assets -----		
	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Use of money and property	\$ 11,866	\$ 12,171
Charges for service	795,457	744,429
Sewer and landfill fees collected for City	338,650	334,119
Miscellaneous	74,520	72,039
Sale of equipment	4,202	-
Total receipts	<u>\$1,224,695</u>	<u>\$1,162,758</u>
Disbursements:		
Distribution expenses	\$ 106,574	112,836
Distribution outlay	34,165	32,880
Administration and other expenses	615,003	553,431
Sewer and landfill fees remitted to City	335,649	334,562
Debt service:		
Principal paid	65,000	63,000
Interest and trustee fees paid	35,945	37,992
Capital projects	41,671	45,186
Total disbursements	<u>\$1,234,007</u>	<u>\$1,179,887</u>
Net change in cash basis net assets	(9,312)	(17,129)
Cash basis net assets beginning of year	<u>236,713</u>	<u>253,842</u>
Cash basis net assets end of year	<u>\$ 227,401</u>	<u>\$ 236,713</u>

In fiscal year 2012, receipts increased \$61,937, or 5%, from 2011. In fiscal 2012, disbursements increased \$54,120, or 5%.

The larger portions of the Waterworks' net assets (56%) 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 (44%) are restricted for the repayment of the revenue bonds issued and the customer water deposits. State and federal laws and regulations requires the Albia Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

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 \$50,608 and budgeted receipts by \$11,400

DEBT ADMINISTRATION

At June 30, 2012, the Waterworks had \$1,041,000 in revenue bonds outstanding, compared to \$1,106,000 last year.

ECONOMIC FACTORS

Albia Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2013 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.

Current economic conditions beyond the Albia Municipal Waterworks control play a significant role in the daily operations of the distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the distribution of water.
- The need to maintain up-to-date technology at a reasonable cost.

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, 2012

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	\$ 795,457
Miscellaneous	<u>74,520</u>
Total operating receipts	<u>869,977</u>
Operating disbursements:	
Business type activities	<u>755,742</u>
Total operating disbursements	<u>755,742</u>
Excess of operating receipts over operating disbursements	<u>114,235</u>
Non-operating receipts (disbursements):	
Interest on investments	2,566
Sewer and Landfill fees collected for City	338,650
Tower and ground space lease	9,300
Sewer and Landfill fees remitted to City	(335,649)
Sale of equipment	4,202
Debt service	(100,945)
Capital outlay	<u>(41,671)</u>
Net non-operating receipts (disbursements)	<u>(123,547)</u>
Change in cash basis net assets	(9,312)
Cash basis net assets beginning of year	<u>236,713</u>
Cash basis net assets end of year	<u>\$ 227,401</u>
Cash Basis Net Assets	
Restricted for:	
Bond principal and interest payments	\$ 9,488
Customer water deposits	<u>90,792</u>
Total restricted net assets	100,280
Unrestricted	<u>127,121</u>
Total cash basis net assets	<u>\$ 227,401</u>

See notes to financial statement.

ALBIA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2012

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 Other Information.

Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

Note 2. Cash and Pooled Investments (continued)

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		Total	
	Principal	Interest	Principal	Interest
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
	<u>\$ 1,041,000</u>	<u>\$ 231,210</u>	<u>\$ 1,041,000</u>	<u>\$ 231,210</u>

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 86 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,272,210. For the current year, principal and interest paid and total customer net receipts were \$98,180 and \$114,235 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 5.38% of their annual covered salary and the Waterworks is required to contribute 8.07% of covered salary. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$13,956, \$11,792 and \$10,390, 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 \$478.12 for single coverage and \$1,205.12 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the Waterworks contributed \$81,218, 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, compensatory 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, compensatory and personal leave payable to employees at June 30, 2012 is \$11,383. The liability has been computed based on rates of pay in effect at June 30, 2012.

Note 7. Lease Agreements

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 expired on December 31, 2011. Currently, the Waterworks office space lease is on a month-to-month basis. Rental expense under this agreement during the year ended June 30, 2012 was \$1,800.

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (tenant). The initial term of the lease began in April, 2010. The Waterworks received \$9,300 from this lease in fiscal year 2012, and is scheduled to receive \$1,000 per month from this lease until April, 2015, with five additional (5) year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 10% over the previous year's base rent. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until fiscal year 2040.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$300 during the year ended June 30, 2012.

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 663 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, 2012 were \$8,821.

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.

Note 9. Risk Management (continued)

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, 2012, 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% 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. Water Purchase Contract

Albia Municipal Waterworks agreed to a forty year water purchase agreement with Rathbun Regional Water Association in 1999. As part of this forty year agreement, the Albia Municipal Waterworks agreed to purchase a minimum of three million gallons of water per month from Rathbun Regional Water Association. Albia Municipal Waterworks currently pays Rathbun Regional Water Association \$2.80 per thousand gallons for the first five million gallons of water purchased per month, and \$1.60 per thousand gallons in excess of five million gallons of water purchased per month. Based on the minimum water purchase requirements of three million gallons of water per month and based on current water rates, the Waterworks will be obligated to pay Rathbun Regional Water Association a minimum of \$100,800 per year for purchased water through the 2039 year.

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2012, approximately 124,091,000 gallons of water were purchased by the Waterworks, at a total cost of \$262,134. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Rathbun Regional Water Association.

Note 11. Commitments/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 12. Subsequent Events

The Waterworks has evaluated subsequent events through November 30, 2012, which is the date that the financial statement was available to be issued.

Other Information

ALBIA MUNICIPAL WATERWORKS

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

OTHER INFORMATION

Year ended June 30, 2012

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 11,866	\$ 12,500	\$ 16,700	\$ (4,834)
Charges for service	1,134,107	1,143,200	1,146,200	(12,093)
Miscellaneous	78,722	75,317	79,517	(795)
Total receipts	1,224,695	1,231,017	1,242,417	(17,722)
Disbursements:				
Business type activities	1,234,007	1,219,995	1,270,603	36,596
Change in cash basis net assets	(9,312)	11,022	(28,186)	18,874
Cash basis net assets beginning of year	236,713	-	-	236,713
Cash basis net assets end of year	\$ 227,401	\$ 11,022	\$ (28,186)	\$ 255,587

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2012

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 \$11,400 and budgeted disbursements by \$50,608. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amount budgeted.

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, 2012

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING RECEIPTS:					
Charge for service -					
Sale of water to meter customers	\$ 730,660	\$ -	\$ -	\$ -	\$ 730,660
Sales of water - tank service	2,284	-	-	-	2,284
Collection fee from City	35,178	-	-	-	35,178
Sale of labor	14,127	-	-	-	14,127
Sale of supplies	13,208	-	-	-	13,208
	<u>795,457</u>	-	-	-	<u>795,457</u>
Miscellaneous -					
Sales tax collected	54,353	-	-	-	54,353
Refunds and reimbursements	2,717	-	-	-	2,717
Customer deposits	-	17,450	-	-	17,450
	<u>57,070</u>	<u>17,450</u>	-	-	<u>74,520</u>
Total operating receipts	<u>852,527</u>	<u>17,450</u>	-	-	<u>869,977</u>
OPERATING DISBURSEMENTS:					
Business type activities -					
Water -					
Distribution expenses -					
Labor	82,649	-	-	-	82,649
Truck expense	2,826	-	-	-	2,826
Repairs tools and equipment	932	-	-	-	932
Gasoline and oil	4,051	-	-	-	4,051
Supplies	4,455	-	-	-	4,455
Water tests	1,152	-	-	-	1,152
Electric	1,569	-	-	-	1,569
Shop fuel	922	-	-	-	922
Shop telephone	563	-	-	-	563
Part-time labor	6,560	-	-	-	6,560
Clothes	895	-	-	-	895
	<u>106,574</u>	-	-	-	<u>106,574</u>
Distribution outlay -					
Supplies	7,889	-	-	-	7,889
Equipment	2,971	-	-	-	2,971
Part-time labor	472	-	-	-	472
Truck purchase	22,833	-	-	-	22,833
	<u>34,165</u>	-	-	-	<u>34,165</u>

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, 2012

	General	Customer Deposit	Debt Service	Improvement	Total
OPERATING DISBURSEMENTS (continued) -					
Business type activities (continued) -					
Water (continued) -					
Administration and					
other expenses -					
Salaries	\$ 79,466	\$ -	\$ -	\$ -	\$ 79,466
Customer service wage	31,113	-	-	-	31,113
Postage	7,949	-	-	-	7,949
Supplies	6,851	-	-	-	6,851
Office rent	1,800	-	-	-	1,800
Telephone	3,891	-	-	-	3,891
Publishing	1,936	-	-	-	1,936
Audit and filing fee	3,925	-	-	-	3,925
Customer deposits	-	14,974	-	-	14,974
School	478	-	-	-	478
Dues	1,511	-	-	-	1,511
Insurance	13,779	-	-	-	13,779
Legal	736	-	-	-	736
Maintenance contracts	9,992	-	-	-	9,992
Part time labor	60	-	-	-	60
Equipment	508	-	-	-	508
Employee insurance	81,735	-	-	-	81,735
Sales tax	54,421	-	-	-	54,421
Payroll taxes	29,104	-	-	-	29,104
Employee medical reimbursements	8,640	-	-	-	8,640
Purchased water	262,134	-	-	-	262,134
	600,029	14,974	-	-	615,003
Total operating disbursements	740,768	14,974	-	-	755,742
Excess (deficiency) of operating receipts over (under) operating disbursements	111,759	2,476	-	-	114,235

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, 2012

	General	Customer Deposit	Debt Service	Improvement	Total
NON-OPERATING RECEIPTS					
(DISBURSEMENTS):					
Interest on investments	\$ 2,566	\$ -	\$ -	\$ -	\$ 2,566
Miscellaneous -					
Sewer rental collections	321,821	-	-	-	321,821
Landfill charge collections	16,829	-	-	-	16,829
Tower and ground space lease	4,200	-	-	5,100	9,300
Sewer rental disbursed to City	(318,834)	-	-	-	(318,834)
Landfill charge disbursed to City	(16,815)	-	-	-	(16,815)
Sale of equipment	4,202	-	-	-	4,202
Debt service -					
Principal redemption	-	-	(65,000)	-	(65,000)
Interest paid	-	-	(33,180)	-	(33,180)
Service fees	-	-	(2,765)	-	(2,765)
Capital outlay	-	-	-	(41,671)	(41,671)
Total non-operating receipts (disbursements)	13,969	-	(100,945)	(36,571)	(123,547)
Excess (deficiency) of receipts over (under) disbursements	125,728	2,476	(100,945)	(36,571)	(9,312)
Operating transfers in (out)	(78,200)	-	23,800	54,400	-
Net change in cash basis net assets	47,528	2,476	(77,145)	17,829	(9,312)
Cash basis net assets, beginning of year	60,781	88,316	86,633	983	236,713
Cash basis net assets, end of year	\$ 108,309	\$ 90,792	\$ 9,488	\$ 18,812	\$ 227,401

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2012

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	\$1,106,000	\$ -	\$ 65,000	\$1,041,000	\$ 33,180	\$ -

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 3

BOND AND NOTE MATURITIES

June 30, 2012

Year ending June 30,	Water Revenue Bonds Issued November 23, 2005		
	Interest Rates	Amount	Total
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
		<u>\$ 1,041,000</u>	<u>\$ 1,041,000</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
Albia Municipal Waterworks:

We have audited the financial statement of the Albia Municipal Waterworks, Albia, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. 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

Management of Albia Municipal Waterworks is responsible for establishing and maintaining effective 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 entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement 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

November 30, 2012

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2012

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, 2012

Other Findings Related to Required Statutory Reporting:

- (1) **Certified Budget** - Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- (2) **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.
- (3) **Travel Expense** - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) **Business Transactions** – Business transactions between the Waterworks and Waterworks officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jack Scieszinski, Board Member Part-owner of Albia Motor Co.	Maintenance	\$300

In accordance with Chapter 362.5 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.

- (5) **Bond Coverage** - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) **Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the trustee minutes but was not.
- (7) **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.
- (8) **Revenue Bonds and Notes** – No instances of non-compliance with the revenue bond and note requirements were noted.
- (9) **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.