

CENTERVILLE MUNICIPAL WATERWORKS  
CENTERVILLE, IOWA

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

June 30, 2013

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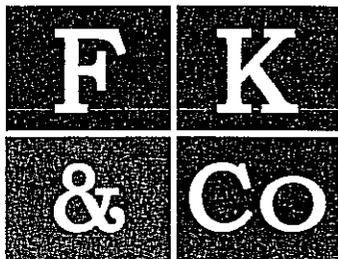
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CENTERVILLE MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carl Cisler	Chairperson	August, 2018
Nancy Bennett	Trustee	August, 2018
Bill Milani	Trustee	August, 2014
Linda Miller	Trustee	August, 2018
Dale Sales	Trustee	August, 2017

Centerville Municipal Waterworks



# FALLER, KINCHELOE & CO, PLC

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## Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Centerville Municipal Waterworks:

#### Report on the Financial Statement

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, (Waterworks) as of and for the year ended June 30, 2013, and the related notes to the financial statement, which collectively comprise the Waterworks' basic financial statement listed in the table of contents.

#### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

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### Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Centerville that is attributable to the transactions of the Waterworks. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprises the 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. Such information has been subjected to the auditing procedures applied in the 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 basic financial statement or to the basic financial statement itself, 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.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 19 through 20 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.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2014 on our consideration of Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Waterworks internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

March 31, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Centerville 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, 2013. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### 2013 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks totaled \$3,866,181, which represents an increase of 36% from fiscal year 2012 to fiscal year 2013.

Disbursements totaled \$3,762,171, which represents an increase of 44% from fiscal year 2012 to fiscal year 2013.

The Waterworks total cash basis net assets increased 12%, or \$104,010 from June 30, 2012 to June 30, 2013.

### USING THIS ANNUAL REPORT

The 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 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 Waterworks' cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the 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 statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the 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 Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2013.

## FINANCIAL ANALYSIS OF THE WATERWORKS

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the 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 Waterworks' financial position by analyzing the increase and decrease in the cash balance.

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. The City of Centerville pays the Waterworks to include sewer and storm water charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer, data entry of meter reads and sales tax computation. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2013 and June 30, 2012 is presented below:

	Changes in Cash Balances	
	Year ended June 30,	
	2013	2012
<b>Receipts:</b>		
Use of money and property	\$ 18,460	22,853
Charges for service	1,143,832	1,064,121
Sewer and storm water fees collected for City	1,532,841	1,524,032
Miscellaneous receipts collected for City	845,278	157,691
Litigation settlement	209,199	-
Miscellaneous	116,571	81,384
<b>Total receipts</b>	<b>3,866,181</b>	<b>2,850,081</b>
<b>Disbursements</b>		
Business type activities	1,124,903	877,845
Sewer and storm water fees remitted to City	1,647,393	1,407,555
Miscellaneous receipts remitted to City	845,278	157,691
Debt service:		
Principal paid	27,000	26,000
Interest paid	10,470	11,250
Service fees	872	937
Capital outlay	106,255	140,130
<b>Total disbursements</b>	<b>3,762,171</b>	<b>2,621,408</b>
<b>Net change in cash balance</b>	<b>104,010</b>	<b>228,673</b>
<b>Cash balance beginning of year</b>	<b>889,486</b>	<b>660,813</b>
<b>Cash balance end of year</b>	<b>\$ 993,496</b>	<b>889,486</b>
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Sewer and storm water fees	\$ -	107,419
Customer water deposits	29,087	39,837
<b>Total restricted cash basis fund balance</b>	<b>29,087</b>	<b>147,256</b>
Unrestricted	964,409	742,230
<b>Total cash basis fund balance</b>	<b>\$ 993,496</b>	<b>889,486</b>

The Waterworks' unrestricted net assets are available for use in the routine operations of the distribution and administrative areas of the Waterworks and for capital improvements in the distribution areas. The Waterworks' restricted net assets are restricted funds for sewer and storm water fees due to the City of Centerville and customer water deposits.

### **BUDGETARY HIGHLIGHTS**

The Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Centerville. There was one budget amendment in fiscal year 2013. The budget amendment increased budgeted disbursements by \$2,195,615.

The Waterworks' charges for service receipts were \$466,339 less than budgeted as water and sewer consumption was not as high as anticipated. The Waterworks' disbursements were \$406,933 less than budgeted for the year as a result of less sewer disbursements paid to the City than anticipated.

### **DEBT ADMINISTRATION**

At June 30, 2013, the Waterworks had \$322,000 in water revenue bonds outstanding, compared to \$349,000 at June 30, 2012.

### **ECONOMIC FACTORS**

The Waterworks appointed officials considered many factors when setting the fiscal year 2014 budget, including water main replacements, upkeep of current mains and fees that will be charged. No adjustments in our water rates were scheduled to be made in fiscal year 2014.

### **CONTACTING THE 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 Patrick Antonen, City Administrator, 312 East Maple Street, PO Box 578, Centerville, Iowa 52544.

**Financial Statement**

CENTERVILLE MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCE

As of and for the year ended June 30, 2013

Operating receipts:	
Charges for service	\$ 1,143,832
Miscellaneous	116,571
Total operating receipts	<u>1,260,403</u>
Operating disbursements:	
Business type activities	<u>1,124,903</u>
Total operating disbursements	<u>1,124,903</u>
Excess of operating receipts over operating disbursements	<u>135,500</u>
Non-operating receipts (disbursements):	
Interest on investments	7,105
Rental income	11,355
Litigation settlement	209,199
Sewer and storm water fees collected for City	1,532,841
Sewer and storm water fees remitted to City	(1,647,393)
Miscellaneous receipts collected for City	845,278
Miscellaneous receipts remitted to City	(845,278)
Debt service	(38,342)
Capital outlay	<u>(106,255)</u>
Net non-operating receipts (disbursements)	<u>(31,490)</u>
Change in cash balance	104,010
Cash balance beginning of year	<u>889,486</u>
Cash balance end of year	<u>\$ 993,496</u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Customer water deposits	\$ 29,087
Unrestricted	<u>964,409</u>
Total cash basis fund balance	<u>\$ 993,496</u>

See notes to financial statement.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2013

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Centerville Municipal Waterworks (Waterworks) is a component unit of the City of Centerville, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-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 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 Fund Balance

Funds set aside for 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 Cash Equivalents

The Waterworks' deposits in the bank at June 30, 2013 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.

At June 30, 2013, a total of \$250,000 of Waterworks' deposits in the credit union were insured by the National Credit Union Administration, and \$426,882 of Waterworks' deposits in the credit union were uninsured.

Note 2. Cash and Cash Equivalents (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.

During the fiscal year, the Waterworks had a NOW bank account and certificates of deposits at two local banks and at a credit union.

In addition, during the fiscal year, the Waterworks had funds in cash and in an American Funds money market account at Edward Jones investment company. Based on the requirements of Chapter 12B of the Code of Iowa, it does not appear that the funds invested in Edward Jones were allowable investments. It appears that these investments were unrated. At June 30, 2013, the Waterworks had no funds in Edward Jones investment company.

The Waterworks has no investment policy, even though an investment policy is required pursuant to Chapter 12B of the Code of Iowa.

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	
2014	\$ 28,000	9,660	37,660
2015	29,000	8,820	37,820
2016	30,000	7,950	37,950
2017	31,000	7,250	38,250
2018	32,000	6,120	38,120
2019	32,000	5,160	37,160
2020	33,000	4,200	37,200
2021	34,000	3,210	37,210
2022	36,000	2,190	38,190
2023	37,000	1,110	38,110
	<u>\$ 322,000</u>	<u>55,670</u>	<u>377,670</u>

Water Revenue Bonds

On August 13, 2008, 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 \$450,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay a .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 \$450,000 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 2009 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

Note 3. Water Revenue Bonds Payable (continued)

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$450,000 in water revenue bonds issued in August 2008. The bonds are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require less than 28 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$377,670. For the current year, principal and interest paid and total customer net receipts were \$37,470 and \$135,500, respectively.

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 account are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) The Waterworks shall keep proper books and accounts adapted to the Water System showing the complete and correct entry of all transactions relating thereto.

The Waterworks has not made the required transfers to the sinking account. The sinking account cash balance at June 30, 2013 was (\$210,822). In addition, the debt principal and interest was paid by the Waterworks from the operating account, and not the sinking account, as required by the bond resolutions. Also, the Waterworks' accounting records did not show the complete and correct entry of all transactions.

Note 4. Pension and Retirement Benefits

The City of Centerville 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. The Waterworks then reimburses the City of Centerville for the Waterworks' share of the IPERS cost. 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 5.78% of their annual covered salary and the City of Centerville is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Waterworks' contributions to the City of Centerville for the Waterworks' share of the IPERS costs for the years ended June 30, 2013, 2012 and 2011 were \$10,985, \$10,127 and \$11,261 and respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits (OPEB)

Plan Description – The City of Centerville operates a single-employer health benefit plan (plan) which provides medical/prescription drug benefits for employees and their families, former employees, and retirees and their spouses. The Waterworks participates in plan, and reimburses the City of Centerville for the Waterworks share of the expenses. There are 34 active, no retired members and 8 former employees in the plan. Included in this plan are 3 City employees who are paid from Waterworks' funds. Retired participants must be age 55 or older at retirement. Former employees must have been employed by the City on a full-time basis for over twenty years to qualify for the benefits.

Note 5. Other Postemployment Benefits (OPEB) (continued)

The medical/prescription drug benefits are provided through a self-insured plan. For retirees under age 65, the City pays the same premium for the medical/prescription drug benefits as active employees. However, for former employees that have been employed by the City on a full-time basis for over twenty years, the City will pay for 50% of the cost of the single health insurance premium to age 65.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and plan members are \$628.90 for single coverage and \$1,478.39 for family coverage. The same monthly premiums apply to retirees and former employees. For the year ended June 30, 2013, the Waterworks contributed \$37,921, and plan members eligible for benefits contributed \$9,303 to the plan.

Note 6. Compensated Absences

City 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 City until used or paid. The Waterworks' approximate liability for earned vacation, compensatory and personal leave termination payments payable to City employees who are paid from the Waterworks' funds at June 30, 2013 is \$5,966. The liability has been computed based on rates of pay in effect at June 30, 2013.

Note 7. Risk Management

The Waterworks is included under the insurance for the City of Centerville. The City of Centerville 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 679 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 at a level determined by the Board not to exceed 300% of 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' contributions to the Pool for the year ended June 30, 2013 were \$11,349.

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 \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

Note 7. 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, 2013, 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 the amount of capital distributions previously received by the withdrawing member and 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 is also included under the City of Centerville's 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 City 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 8. Lease Agreement

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (tenant). This lease was entered into in February of 2009. The Waterworks received \$10,805 from this lease in fiscal year 2013. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until 2029. After twenty years from the date of the lease, the Waterworks can then terminate this lease with the tenant by giving one year written notice of the date of such termination. As long as this lease is in effect, each year the base rent for this lease will be increased by 3% over the previous year's base rent.

Note 9. Water Purchase Contract

The Waterworks agreed to a forty year water purchase agreement with Rathbun Regional Water Association in July 2001. As part of this agreement, from July 2006 to the end of the forty year agreement, the Waterworks agreed to purchase a minimum of seven and one-half million gallons of water per month from Rathbun Regional Water Association. The Waterworks currently pays Rathbun Regional Water Association \$2.80 per thousand gallons for the first five million gallons of water purchased per month, \$1.60 per thousand gallons for the next ten million gallons of water purchased per month, and \$1.35 per thousand gallons in excess of fifteen million gallons of water purchased per month. Based on the minimum water purchase requirements of seven and one-half 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 \$216,000 per year for purchased water through the 2041 year.

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2013, approximately 231,456,000 gallons of water were paid for by the Waterworks, at a total cost of \$429,466. 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 10. Commitments

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.

The Waterworks has a contract for professional services with the City of Centerville. According to the contract, the City will provide Commissioner services and Administration services to the Waterworks at a cost of \$4,750 per month to the Waterworks. This contract is perpetual, but either party can terminate this contract by giving the other party the notice of termination at least 180 days prior to the desired date of termination. The total amounts paid, in relation to this agreement in fiscal year 2013, was \$57,000.

Note 11. Subsequent Events

In fiscal year 2014, the Waterworks paid off early a total of \$322,000 in water revenue bonds. These revenue bonds were paid off before the scheduled maturity date from existing Waterworks cash reserves.

The Waterworks has evaluated subsequent events through March 31, 2014, which is the date that the financial statement was available to be issued.

Other Information

CENTERVILLE MUNICIPAL WATERWORKS

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

Year ended June 30, 2013

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Use of money and property	\$ 18,460	-	18,460	3,500	3,500	14,960
Charges for service	3,521,951	845,278	2,676,673	1,095,200	3,143,012	(466,339)
Miscellaneous	325,770	-	325,770	65,300	310,300	15,470
Total receipts	<u>3,866,181</u>	<u>845,278</u>	<u>3,020,903</u>	<u>1,164,000</u>	<u>3,456,812</u>	<u>(435,909)</u>
Disbursements:						
Business type activities	<u>3,762,171</u>	<u>845,278</u>	<u>2,916,893</u>	<u>1,128,211</u>	<u>3,323,826</u>	<u>(406,933)</u>
Change in cash balance	104,010	-	104,010	<u>35,789</u>	<u>132,986</u>	<u>(28,976)</u>
Cash balance beginning of year	<u>889,486</u>	-	<u>889,486</u>			
Cash balance end of year	<u>\$ 993,496</u>	-	<u>993,496</u>			

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2013

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

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$2,195,615. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed the amount budgeted.

**Supplementary Information**

CENTERVILLE MUNICIPAL WATERWORKS

Schedule I

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCE

ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2013

	Waterworks	Customer Deposit	Water Revenue Bond Sinking	Water Revenue Reserve	Water Revenue Improvement	Total
<b>OPERATING RECEIPTS:</b>						
Charges for service -						
Sale of water	\$ 1,133,885	-	-	-	-	1,133,885
Fire protection	4,500	-	-	-	-	4,500
Shut off fees	5,785	-	-	-	-	5,785
	<u>1,144,170</u>	-	-	-	-	<u>1,144,170</u>
Miscellaneous -						
Sales tax collected	56,066	-	-	-	-	56,066
Refunds and reimbursements	39,488	-	-	-	-	39,488
Customer deposits	-	18,270	-	-	-	18,270
Miscellaneous	2,747	-	-	-	-	2,747
	<u>98,301</u>	<u>18,270</u>	-	-	-	<u>116,571</u>
Total operating receipts	<u>1,242,471</u>	<u>18,270</u>	-	-	-	<u>1,260,741</u>
<b>OPERATING DISBURSEMENTS:</b>						
Business type activities -						
Salaries	132,170	-	-	-	-	132,170
Payroll taxes	20,384	-	-	-	-	20,384
Employee insurance	38,208	-	-	-	-	38,208
Workers compensation	6,245	-	-	-	-	6,245
Unemployment	1,317	-	-	-	-	1,317
Physicals/employee benefits	214	-	-	-	-	214
School/training	120	-	-	-	-	120
Repair buildings	140	-	-	-	-	140
Repair reservoir	3,080	-	-	-	-	3,080
Vehicle costs	8,373	-	-	-	-	8,373
Machinery repair	4,609	-	-	-	-	4,609
Utilities	4,122	-	-	-	-	4,122
Telephone/internet	2,603	-	-	-	-	2,603
Purchased water	429,466	-	-	-	-	429,466
Water testing	2,367	-	-	-	-	2,367
Miscellaneous	1,347	-	-	-	-	1,347
Management fee to City	57,000	-	-	-	-	57,000
Audit/accounting fees	19,708	-	-	-	-	19,708
Publication	1,209	-	-	-	-	1,209
Collection	117	-	-	-	-	117
Insurance	11,349	-	-	-	-	11,349
Legal fees	1,453	-	-	-	-	1,453
Sales tax	59,273	-	-	-	-	59,273
Data processing	5,789	-	-	-	-	5,789
Customer deposits	-	29,020	-	-	-	29,020
Bank costs	1,712	-	-	-	-	1,712
Tools and supplies	3,394	-	-	-	-	3,394
Office supplies	5,324	-	-	-	-	5,324
Postage	13,464	-	-	-	-	13,464
Safety equipment	2,074	-	-	-	-	2,074
Operating supplies and materials	259,252	-	-	-	-	259,252
Total operating disbursements	<u>1,095,883</u>	<u>29,020</u>	-	-	-	<u>1,124,903</u>

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

Schedule I

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCE

ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2013

	Waterworks	Customer Deposit	Water Revenue Bond Sinking	Water Revenue Reserve	Water Revenue Improvement	Total
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 146,250	(10,750)	-	-	-	135,500
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS):</b>						
Interest on investments	170	-	-	6,935	-	7,105
Rental income	11,355	-	-	-	-	11,355
Litigation settlement	209,199	-	-	-	-	209,199
Sewer and storm water fees collected for City	1,532,841	-	-	-	-	1,532,841
Sewer and storm water fees remitted to City	(1,647,393)	-	-	-	-	(1,647,393)
Miscellaneous receipts collected for City	845,278	-	-	-	-	845,278
Miscellaneous receipts remitted to City	(845,278)	-	-	-	-	(845,278)
Debt service -						
Principal redeemed	(27,000)	-	-	-	-	(27,000)
Interest paid	(10,470)	-	-	-	-	(10,470)
Service fees	(872)	-	-	-	-	(872)
Capital outlay	(106,255)	-	-	-	-	(106,255)
Total non-operating receipts (disbursements)	(38,425)	-	-	6,935	-	(31,490)
Change in cash balance	107,825	(10,750)	-	6,935	-	104,010
Cash balance beginning of year	675,073	39,837	(210,822)	196,677	188,721	889,486
Cash balance assets end of year	\$ 782,898	29,087	(210,822)	203,612	188,721	993,496

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2013

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds *	08/13/08	3.00%	\$ 450,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08/13/08	\$ 349,000	-	27,000	322,000	10,470	-

\* - The agreement also requires the Waterworks to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

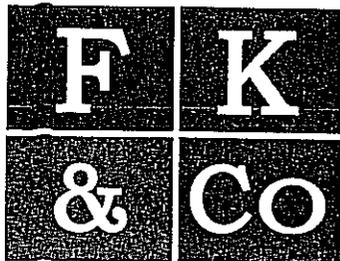
Schedule 3

BOND MATURITIES

June 30, 2013

Year ending June 30,	Water Revenue Bonds Issued August 13, 2008	
	Interest Rates	Amount
2014	3.00%	\$ 28,000
2015	3.00%	29,000
2016	3.00%	30,000
2017	3.00%	31,000
2018	3.00%	32,000
2019	3.00%	32,000
2020	3.00%	33,000
2021	3.00%	34,000
2022	3.00%	36,000
2023	3.00%	37,000
		<u>\$ 322,000</u>

See accompanying independent auditor's report.



# FALLER, KINCHELOE & CO, PLC

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## Certified Public Accountants

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  
Centerville Municipal Waterworks:

We have audited 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, the financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, (Waterworks) as of and for the year ended June 30, 2013, and the related notes to the financial statement which collectively comprise the Waterworks' basic financial statement, and have issued our report thereon dated March 31, 2014. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D), (E) and (F) to be material weaknesses.

A significant deficiency is a deficiency, or a 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 the accompanying Schedule of Findings as item (G) to be a significant deficiency.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 which 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, 2013 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.

## The Waterworks' Responses to Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the 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.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

March 31, 2014

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

**Findings Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) 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, bank accounts are not reconciled by an individual who does not 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 Centerville Municipal Waterworks (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.

- (B) Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The Waterworks does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the Waterworks continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

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. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

- (C) Material Adjustments – We proposed several adjusting journal entries that were material to the Waterworks' financial statements. For example, some bank interest earnings were not recorded on the accounting records. Also, we identified material amounts of receipts and disbursements which were either improperly recorded, or were not recorded at all on the Waterworks' accounting records. Adjustments were subsequently made by the Waterworks to properly report the amounts in the Waterworks' financial statements.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

Recommendation – We recommend that all balances at month and year end should be reviewed for accuracy and completeness, and implement procedures to ensure all receipts and disbursements are properly recorded in the Waterworks' accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (D) Bank Reconciliations – Although bank reconciliations were prepared, the bank reconciliations completed during the year ended June 30, 2013 contained material inaccuracies. Appropriate adjustments were made to the June 30, 2013 bank reconciliation in order to obtain materially accurate bank reconciliation amounts. Accurate bank reconciliations are necessary to provide assurance on the accuracy of the underlying accounting data.

It appears management of the Waterworks was aware of the problem, but it does not appear the Waterworks took any action to correct this problem.

Recommendation – The Waterworks should implement procedures to ensure accurate bank reconciliations are prepared on a monthly basis. In addition, management of the Waterworks should ensure the reconciled bank balance agrees to the book balance at each month end, and at year end.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (E) Utility Rates, Collections and Procedures – Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. It appears the last time the water rates were increased was in 2007. However, the water rate increases in 2007 were established by a motion of the trustees and not by resolution, even though a resolution is required. Furthermore, the water rate changes in 2007 only documented the increases in the water rates and did not document the actual water rates that should be charged.

The Waterworks bills and collects sewer fees as an agent for the City. The sewer rates are established by ordinance by the City Council. During our analysis, we determined that the sewer rates actually billed by the Waterworks were different than the sewer rates as established by City ordinance. Waterworks personnel were unable to explain why these differences exist.

During our analysis, we determined that the water rates actually billed by the Waterworks were different than the water rates as documented in the rules and regulations as approved by the Board of Trustees. Waterworks personnel were unable to explain why these differences exist.

Chapter 388.6 of the Code of Iowa states that a utility may not provide use or service at a discriminatory rate, except to the City or its agencies. However, we noted that the Waterworks was providing free water and sewer service to some non-profits in the City. This would appear to violate Chapter 388.6 of the Code of Iowa.

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa. The Waterworks should also ensure that the sewer rates billed agree to the sewer rates as established by City ordinance and that the water rates billed agree to the water rates as documented in the resolution.

The Waterworks should also ensure compliance with Chapter 388.6 of the Code of Iowa in relation to not providing utility use or service at a discriminatory rate.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

Response – We will establish water utility rates by resolution of the trustees, and publish them accordingly. We will also analyze our sewer and water billing amounts to ensure we are billing the correct amounts. In relation to providing utility services or usage at a discriminatory rate, we will discuss this with our Attorney to determine compliance.

Conclusion – Response acknowledged.

- (F) Ordinances – Even though the residents of the City voted for and approved the creation of a Board of Trustees in 1948 to manage the Waterworks, the City has no ordinance which defines the duties and responsibilities of the Board of Trustees.

Chapter 388.3 of the Code of Iowa requires that the City appoint the Waterworks board members to staggered six year terms. Furthermore, this same Code section states that “A board member appointed to fill a vacancy occurring by reason other than the expiration of a term is appointed for the balance of the unexpired term.” Currently, three of the five board members terms expire on the same date. Since three of the five board members terms expire on the same date, it would not appear the City is in compliance with Chapter 388.3 of the Code of Iowa in relation to staggered six year terms.

Recommendation – The Waterworks should work with the City to establish a City ordinance which defines the duties and responsibilities of the Board of Trustees. In addition, to ensure compliance with Chapter 388.3 of the Code of Iowa, the Waterworks should work with the City to ensure the City complies with the appointment of the Waterworks board members.

Response – We will work on implementing these recommendations.

Conclusion – Response acknowledged.

- (G) Utility Reconciliation – The listing of meter deposit amounts on hand, by customer, is not reconciled to the meter deposit cash total as recorded on the accounting system.

Recommendation – The listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system. Any variances between these amounts should be resolved.

Response - We will reconcile the meter deposit account with the ledger on a monthly basis in the future.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Centerville includes an amount for the Centerville Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- (2) 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.
- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) Business Transactions – No business transactions between the Waterworks and Waterworks officials or employees were noted.
- (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 - Transactions were found that we believe should have been approved in the trustee minutes but were not.

Chapter 388.4 of the Code of Iowa requires that immediately following a regular or special meeting, the trustee minutes and a list of all claims allowed must be published by the Waterworks in a newspaper of general circulation in the city. We noted that the trustees are not approving the customer deposit refunds, nor were the related disbursements being published in the newspaper.

The Waterworks went into a closed sessions during fiscal year 2013. However, an instance was noted where the minute record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The Waterworks should implement procedures to ensure compliance with Chapter 388.4 of the Code of Iowa. Specifically, the trustees should approve all claims, and that all claims allowed should be published in the newspaper. The Waterworks should also comply with Chapter 21 of the Code of Iowa in relation to closed sessions.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (7) Deposits and Investments - Instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the investment requirements were noted.

The Waterworks did not have an investment policy in effect during the fiscal year, as required by Chapter 12B of the Code of Iowa.

The cash and investments held in Edward Jones during the fiscal year did not appear to comply with the requirements of Chapter 12B.10 of the Code of Iowa.

The Waterworks had \$426,882 in deposits in the credit union which were uninsured as of June 30, 2013. Chapter 12C.16 of the Code of Iowa requires that “before a deposit of public funds is made by a public officer with a credit union in excess of the amount federally insured, the public officer shall obtain security for the deposit ...”. The Waterworks did not obtain any security for the deposits in accordance with the Code of Iowa.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

Recommendation – The Waterworks should establish an investment policy which complies with the provisions of Chapter 12B.10 of the Code of Iowa, and ensure all investments meet those requirements. In addition, the Waterworks should implement procedures to ensure all funds deposited to the credit union are adequately secured, as required by Chapter 12C of the Code of Iowa.

Response – We will review this with our Attorney to ensure compliance with these requirements. In addition, we no longer have funds in Edward Jones.

Conclusion – Response acknowledged.

- (8) Revenue Bonds – Instances of non-compliance with the revenue bond requirements for the fiscal year ended June 30, 2013 were noted.

Even though the Waterworks established a water revenue bond sinking account, the Waterworks did not make the required transfers to the water revenue bond sinking account, as required by the water revenue bond resolutions. Furthermore, the water revenue bond sinking account had a cash balance of (\$210,822) as of June 30, 2013, as noted on Schedule 1. In addition, the debt principal and interest is required to be paid from the water revenue bond sinking account; however, the Waterworks actually paid the debt principal and interest from the Waterworks operating account.

The water revenue bond resolutions require the Waterworks to keep accurate books of account. It is questionable if the Waterworks met this requirement.

Recommendation – The Waterworks should make transfers to the water revenue bond sinking account to ensure the balance in the water revenue bond sinking account is in compliance with the water revenue bond resolutions. The debt principal and interest should then be paid from the balance in the water revenue bond sinking account. In addition, to ensure compliance with the water revenue bond resolutions, the Waterworks should keep accurate books of account.

Response – We were unaware of these requirements until now. We will attempt to implement these recommendations in the future.

Conclusion – Response acknowledged.

- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows cancelled checks to be retained in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. For the Waterworks, an image of the back of each cancelled check was not consistently obtained.

Recommendation – The Waterworks should obtain and retain an image of both the front and back of each cancelled check as required by the Code of Iowa.

Response – We have already implemented this recommendation.

Conclusion – Response acknowledged.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

- (10) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires the Waterworks to report and remit obligations, including checks and water deposits outstanding for more than two years, to the State Treasurer's office annually. The Waterworks did not consistently remit these obligations as required.

Recommendation – The outstanding checks and water deposits outstanding should be reviewed annually and items over two years old should be remitted to the State Treasurer's Office as required.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (11) Sales Tax – The Waterworks did not consistently remit sales taxes to the State of Iowa for the sale of bulk water and material sales to private customers and contractors. In addition, the Waterworks has not analyzed its collections to determine if they are properly collecting sales tax on all items.

Recommendation – The Waterworks should remit sales taxes to the State of Iowa as required for the sale of bulk water and material sales. In addition, the Waterworks should analyze its collections to determine if they are properly collecting sales tax on all items.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (12) Financing Decisions – The Waterworks paid a late fee on a telephone bill. The Waterworks incurred a \$170 penalty for cashing out a certificate of deposit before maturity.

The Waterworks has \$322,000 in borrowed funds at June 30, 2013, with an interest rate of 3%. However, at June 30, 2013, the Waterworks had approximately \$1,000,000 in cash in its bank accounts. The Waterworks is paying several thousand dollars of interest on this debt, and the Waterworks is only receiving an approximate .1% interest rate on the funds in the bank.

Recommendation – The Waterworks should review its financing procedures to ensure that it is in the best interests of the Waterworks. This would include planning to ensure late fees and penalties are not incurred and paid, and that borrowed funds are in the best interest of the Waterworks.

Response – We will review this.

Conclusion – Response acknowledged.