

CHARITON MUNICIPAL WATERWORKS
CHARITON, IOWA

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

June 30, 2013

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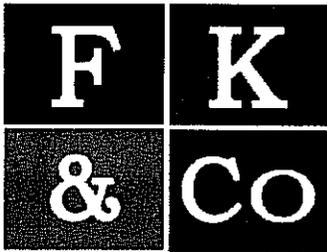
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CHARITON MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2013
Evelyn Hull	Secretary	December 31, 2016
George Holder	Trustee	December 31, 2015
Bob Stump	Trustee	December 31, 2014
Bruce Hamersley	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite

Chariton Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Chariton Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, 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 opinions 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 present 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 Chariton 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 comprise 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 18 through 19 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 December 9, 2013, on our consideration of the 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 the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC
Certified Public Accountants

December 9, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

2013 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks increased 21.4%, or approximately \$416,000, from fiscal year 2012 to fiscal year 2013.

Disbursements increased .7%, or approximately \$15,000, from fiscal year 2012 to fiscal year 2013.

The Waterworks total cash basis fund balances increased 32.0%, or approximately \$285,000, from June 30, 2012 to June 30, 2013.

The increase in receipts is due primarily to sewer rate increases and monies received from a litigation settlement.

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 this financial statement. 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 are 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 Balances 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 Fund 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 Balances

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 cash balances.

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, meter fees, a litigation settlement, taps and miscellaneous fees. The City of Chariton pays the Waterworks contract fees to include sewer charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net position for the years ended June 30, 2013 and June 30, 2012 are presented below:

	Changes in Cash Basis Net Position	
	Year ended June 30,	
	2013	2012
Receipts:		
Use of money and property	\$ 12,492	\$ 13,673
Charges for service	1,190,835	1,226,258
Miscellaneous	23,813	30,777
Litigation settlement	286,497	-
Sewer rental and storm water fees collected for City	851,238	677,964
Total receipts	2,364,875	1,948,672
Disbursements		
Plant operation and maintenance	300,778	310,048
Distribution expenses	262,060	252,410
Accounting and collection	168,348	169,736
Administration and other expenses	182,854	204,013
Capital improvements	32,042	44,803
Sewer rental and storm water fees remitted to City	851,238	678,054
Debt service:		
Principal paid	168,000	162,000
Interest and service fees paid	38,395	41,785
Capital projects	76,378	201,942
Total disbursements	2,080,093	2,064,791
Change in cash basis net position	284,782	(116,119)
Cash basis net position beginning of year	891,020	1,007,139
Cash basis net position end of year	\$ 1,175,802	\$ 891,020

The Waterworks' unrestricted net assets are available for use in routine operations of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted net assets are restricted funds for the repayment the revenue bonds, a required bond reserve, and customer water deposits.

BUDGETARY HIGHLIGHTS

The Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the fiscal year, the Waterworks amended its budget one time, increasing budgeted disbursements by \$300,000.

DEBT ADMINISTRATION

At June 30, 2013, the Waterworks had \$1,126,000 in revenue bonds outstanding, compared to \$1,294,000 last year.

ECONOMIC FACTORS

The Waterworks' appointed officials considered many factors when setting the fiscal year 2013 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged. Current economic conditions beyond the Waterworks' Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, lakes, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and lake protection requirements.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

The current drought conditions present a challenge for the Waterworks, both in terms of the adequacy of, and the quality of the water supply.

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 financial information, contact the Waterworks Superintendent, 101 Albia Road, Box 866, Chariton, IA 50049.

Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES

As of and for the year ended June 30, 2013

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	\$ 1,190,835
Miscellaneous	23,813
Total operating receipts	<u>1,214,648</u>
Operating disbursements:	
Business type activities	<u>946,082</u>
Total operating disbursements	<u>946,082</u>
Excess of operating receipts over operating disbursements	<u>268,566</u>
Non-operating receipts (disbursements):	
Interest on investments	3,352
Rent	9,140
Litigation settlement	286,497
Sewer rental and storm sewer fees collected for City	851,238
Sewer rental and storm sewer fees remitted to City	(851,238)
Debt service	(206,395)
Capital projects	(76,378)
Net non-operating receipts (disbursements)	<u>16,216</u>
Change in cash balances	284,782
Cash balances beginning of year	<u>891,020</u>
Cash balances end of year	<u>\$ 1,175,802</u>
Cash Basis Fund Balances	
Restricted for:	
Customer water deposits	\$ 95,919
Bond principal and interest payments	15,214
Bond reserve	108,500
Total restricted fund balances	<u>219,633</u>
Unrestricted	<u>956,169</u>
Total cash basis fund balances	<u>\$ 1,175,802</u>

See notes to financial statement.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2013

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Chariton Municipal Waterworks (Waterworks) is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a 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 on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

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 Assets and Net Assets

Funds set aside for customer water deposits, bond principal and interest payments, and bond reserve monies 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, 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.

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. Revenue Bonds Payable

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

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 38,000	\$ 16,380	\$ 110,000	\$ 16,815	\$ 148,000	\$ 33,195
2015	39,000	15,240	110,000	14,285	149,000	29,525
2016	40,000	14,070	115,000	11,425	155,000	25,495
2017	40,000	12,870	120,000	8,090	160,000	20,960
2018	41,000	11,670	125,000	4,250	166,000	15,920
2019	41,000	10,440	-	-	41,000	10,440
2020	42,000	9,210	-	-	42,000	9,210
2021	43,000	7,950	-	-	43,000	7,950
2022	43,000	6,660	-	-	43,000	6,660
2023	44,000	5,370	-	-	44,000	5,370
2024	45,000	4,050	-	-	45,000	4,050
2025	45,000	2,700	-	-	45,000	2,700
2026	45,000	1,350	-	-	45,000	1,350
	<u>\$ 546,000</u>	<u>\$ 117,960</u>	<u>\$ 580,000</u>	<u>\$ 54,865</u>	<u>\$ 1,126,000</u>	<u>\$ 172,825</u>

Water Revenue Bonds

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

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.

Note 3. Water Revenue Bonds Payable (continued)

- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Water Revenue Improvement and Refunding Bonds

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

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

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006, and \$1,085,000 in water revenue improvement and refunding bonds issued in 2009. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 77 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,298,825. For the current year, principal and interest paid and total customer net receipts were \$204,935 and \$268,566, respectively.

Note 4. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the Waterworks is required to contribute 8.67% of covered salary. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$25,713, \$27,793 and \$22,155, respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits

Plan Description – The City of Chariton operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City of Chariton's insurance policy. The City bills the Waterworks for its share of the health benefit plan costs. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

Note 5. Other Postemployment Benefits (continued)

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy -- The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$461.43 for single coverage, \$969.00 for employee/spouse coverage, and \$1,361.20 for family coverage. For the year ended June 30, 2013, the Waterworks contributed \$72,690 and plan members eligible for benefits contributed \$7,434 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2013 is \$26,413. The liability has been computed based on rates of pay in effect at June 30, 2013.

The Waterworks policy allows employees who retire at age 55 or older to receive pay for unused sick leave, up to a maximum of 960 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Currently, only three Waterworks employees are age 55 or older. However, all employees are eligible for this benefit if they retire from the Waterworks at age 55 or older, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2013, the maximum liability to the Waterworks is \$108,988 at June 30, 2013.

Note 7. Lease Agreements

The City is leasing antenna space on the water tower to USCOC of Iowa RSA #1, Inc. (tenant) for \$700 per month. The Waterworks and the City have signed an additional agreement which provides that the City and Waterworks will each receive one-half of the lease payments in relation to this lease. The tenant pays the City the entire lease payment, and then the City reimburses the Waterworks for one-half of this amount. The initial term of the lease began in April, 2009. The Waterworks received \$4,200 from the City in relation to this lease in fiscal year 2013, and is scheduled to receive \$350 per month from the City in relation to this lease until April, 2014, 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 12% over the previous year's base rent. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until fiscal year 2039.

The Waterworks is leasing antenna space on the water tower to Skybeam (tenant). The initial term of the lease began in March, 2005. The Waterworks received \$4,680 from this lease in fiscal year 2013, and is scheduled to receive \$360 per month from this lease until December, 2015, with an additional (5) year renewal option. At the next renewal option, the Waterworks is scheduled to receive \$432 per month from this lease. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until December, 2020.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$6,052 during the year ended June 30, 2013.

Note 9. Risk Management

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

Note 10. Contingency/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 accepted a bid for water main repair in the fall of 2012. The total bid amount was approximately \$50,000. It is anticipated that the water main repair will take place in the summer of 2013. The Waterworks intends to pay for this cost from existing cash reserves.

The Waterworks accepted a bid for plant updates. The total bid amount was approximately \$80,000. It is anticipated that the plant update will take place in the fall of 2013. The Waterworks intends to pay for this cost from existing cash reserves.

Note 11. Subsequent Events

The Waterworks incurred approximately \$52,000 in street repair costs in fiscal year 2014.

The Waterworks approved a bid on the construction of a new storage building for approximately \$37,000.

The Waterworks has evaluated subsequent events through December 9, 2013, which is the date that the financial statements were available to be issued.

Other Information

CHARITON MUNICIPAL WATERWORKS

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

OTHER INFORMATION

Year ended June 30, 2013

	Budgeted Amounts		Final to Actual Variance	
	Actual	Original		Final
Receipts:				
Use of money and property	\$ 12,492	\$ 10,750	\$ 10,750	\$ 1,742
Charges for service	2,042,073	2,175,000	2,175,000	(132,927)
Miscellaneous	310,310	16,750	16,750	293,560
Total receipts	<u>2,364,875</u>	<u>2,202,500</u>	<u>2,202,500</u>	<u>162,375</u>
Disbursements:				
Business type activities	<u>2,080,093</u>	<u>2,202,500</u>	<u>2,502,500</u>	<u>422,407</u>
Change in cash balances	284,782	\$ -	\$ (300,000)	\$ 584,782
Cash balances beginning of year	<u>891,020</u>			
Cash balances end of year	<u>\$ 1,175,802</u>			

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2013

The Chariton Municipal Waterworks (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 disbursements by \$300,000. The budget amendment is reflected in the final budgeted amounts.

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

Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2013

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
Operating receipts:						
Charge for service:						
Sale of water to meter customers	\$1,144,736	\$ -	\$ -	\$ -	\$ -	\$1,144,736
Sales of water - tank service	7,143	-	-	-	-	7,143
Meter fee	24,041	-	-	-	-	24,041
Collection fee from City	12,000	-	-	-	-	12,000
Sale of supplies and materials	2,915	-	-	-	-	2,915
	<u>1,190,835</u>	-	-	-	-	<u>1,190,835</u>
Miscellaneous:						
Refunds and reimbursements	10,328	-	-	-	-	10,328
Customer deposits	-	10,525	-	-	-	10,525
Miscellaneous	2,960	-	-	-	-	2,960
	<u>13,288</u>	<u>10,525</u>	-	-	-	<u>23,813</u>
Total operating receipts	<u>1,204,123</u>	<u>10,525</u>	-	-	-	<u>1,214,648</u>
Operating disbursements:						
Business type activities:						
Plant operation and maintenance:						
Salaries	117,889	-	-	-	-	117,889
Power and propane	49,929	-	-	-	-	49,929
Chemicals	103,475	-	-	-	-	103,475
Supplies	5,570	-	-	-	-	5,570
Telephone	1,920	-	-	-	-	1,920
Security cameras	958	-	-	-	-	958
Miscellaneous and safety	11,120	-	-	-	-	11,120
Maintenance material	9,210	-	-	-	-	9,210
Maintenance labor	707	-	-	-	-	707
	<u>300,778</u>	-	-	-	-	<u>300,778</u>
Distribution expenses:						
Salaries	127,691	-	-	-	-	127,691
Vehicle expense	15,010	-	-	-	-	15,010
Insurance	51,244	-	-	-	-	51,244
Supplies	5,304	-	-	-	-	5,304
Utilities	11,819	-	-	-	-	11,819
Telephone	2,376	-	-	-	-	2,376
Miscellaneous and safety	2,617	-	-	-	-	2,617
Maintenance material	37,731	-	-	-	-	37,731
Maintenance labor	8,268	-	-	-	-	8,268
	<u>262,060</u>	-	-	-	-	<u>262,060</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2013

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
Operating disbursements (continued):						
Business type activities (continued):						
Accounting and collection:						
Salaries	85,110	-	-	-	-	85,110
Meter reading	5,425	-	-	-	-	5,425
Office supplies	3,192	-	-	-	-	3,192
Sales tax	54,454	-	-	-	-	54,454
Postage	9,224	-	-	-	-	9,224
Telephone	2,698	-	-	-	-	2,698
Utilities	3,707	-	-	-	-	3,707
Miscellaneous and safety	4,523	-	-	15	-	4,538
	<u>168,333</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>168,348</u>
Administration and other expenses:						
Engineering and legal	18,949	-	-	-	-	18,949
Employee benefits	134,652	-	-	-	-	134,652
Audit and filing fee	5,035	-	-	-	-	5,035
Miscellaneous and safety	13,908	-	-	-	-	13,908
Building expense	610	-	-	-	-	610
Customer deposits	-	9,700	-	-	-	9,700
	<u>173,154</u>	<u>9,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,854</u>
Capital improvements:						
Meters	28,542	-	-	-	-	28,542
Vehicles	3,500	-	-	-	-	3,500
	<u>32,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,042</u>
Total operating disbursements	<u>936,367</u>	<u>9,700</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>946,082</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>267,756</u>	<u>825</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>268,566</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2013

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
Non-operating receipts (disbursements):						
Interest on investments	690	2	-	2,660	-	3,352
Rent	9,140	-	-	-	-	9,140
Litigation settlement	-	-	-	286,497	-	286,497
Sewer rental and storm sewer fees collected for City	851,238	-	-	-	-	851,238
Sewer rental and storm sewer fees remitted to City	(851,238)	-	-	-	-	(851,238)
Debt service:						
Principal redemption	-	-	(168,000)	-	-	(168,000)
Interest paid	-	-	(36,935)	-	-	(36,935)
Service fees	-	-	(1,460)	-	-	(1,460)
Capital projects	(76,378)	-	-	-	-	(76,378)
Net non-operating receipts (disbursements)	(66,548)	2	(206,395)	289,157	-	16,216
Excess (deficiency) of receipts over (under) disbursements	201,208	827	(206,395)	289,142	-	284,782
Operating transfers in (out)	(198,394)	-	204,524	20,940	(27,070)	-
Net change in cash balances	2,814	827	(1,871)	310,082	(27,070)	284,782
Cash balances beginning of year	306,413	95,092	125,585	336,860	27,070	891,020
Cash balances end of year	\$ 309,227	\$ 95,919	\$ 123,714	\$ 646,942	\$ -	\$ 1,175,802

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2013

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

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-07-06	\$ 584,000	\$ -	\$ 38,000	\$ 546,000	\$ 17,520	\$ -
10-29-09	710,000	-	130,000	580,000	19,415	-
Total	\$ 1,294,000	\$ -	\$ 168,000	\$ 1,126,000	\$ 36,935	\$ -

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

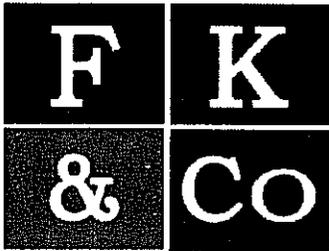
Schedule 3

BOND MATURITIES

June 30, 2013

Year Ending June 30,	Water Revenue Bonds Issued August 7, 2006		Water Revenue Improvement and Refunding Bonds Issued October 29, 2009		Total
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2014	3.00%	\$ 38,000	2.30%	\$ 110,000	\$ 148,000
2015	3.00%	39,000	2.60%	110,000	149,000
2016	3.00%	40,000	2.90%	115,000	155,000
2017	3.00%	40,000	3.20%	120,000	160,000
2018	3.00%	41,000	3.40%	125,000	166,000
2019	3.00%	41,000	-	-	41,000
2020	3.00%	42,000	-	-	42,000
2021	3.00%	43,000	-	-	43,000
2022	3.00%	43,000	-	-	43,000
2023	3.00%	44,000	-	-	44,000
2024	3.00%	45,000	-	-	45,000
2025	3.00%	45,000	-	-	45,000
2026	3.00%	45,000	-	-	45,000
		<u>\$ 546,000</u>		<u>\$ 580,000</u>	<u>\$ 1,126,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

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
Chariton 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 Chariton Municipal Waterworks, Chariton, 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 December 9, 2013. 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 our 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.

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) and (B) to be material weaknesses.

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.

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 them.

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 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

December 9, 2013

CHARITON 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, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Chariton Municipal Waterworks (Waterworks) should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials.

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

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

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

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2013, did not exceed the amounts budgeted.
- (2) Questionable Disbursements - Certain disbursements which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Lake View Golf and County Club	Awards banquet for employees, board members, and spouses.	\$ 456
Hy-Vee	Gift cards for employees	400

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

In addition, according to IRS Publication 15-B and Publication 535, the gift cards given to some Waterworks employees would be considered a taxable event, subject to income and employment taxes. However, the Waterworks did not include the value of gift cards as income to the employee or withhold taxes, as required.

Recommendation – The Waterworks should determine and document the public purpose served by these disbursements before authorizing any further payments. If these disbursements are continued, the Waterworks should establish written policies and procedures, including the requirement for proper documentation. In addition, in the future, all employee taxable compensation, including the value of gift cards given to employees, should be included in the employees income and be subject to applicable payroll taxes.

Response – We will review this issue.

Conclusion – Response accepted.

- (3) Travel Expense - No expenditures 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:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son Owns Savage Dirt Works	Hauling (per bid) Construction services	\$ 3,090 1,765
Mark Savage, Employee Brother Owns ARS Construction	Construction services	1,197

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

In accordance with Chapter 362.5 of the Code of Iowa, the amount paid to Savage Dirt Works for hauling does not appear to represent a conflict of interest since the amount paid to this business was procured through sealed competitive bids.

In accordance with Chapter 362.5 of the Code of Iowa, the amount paid to ARS Construction does not appear to represent a conflict of interest since the total transactions with this business was less than \$1,500 during the fiscal year.

The transactions with Savage Dirt Works for \$1,765 for construction services may represent a conflict of interest since total transactions which were not competitively bid exceeded \$1,500 during the fiscal year and the transactions are not covered by an allowable exception to the provisions of Chapter 362.5 of the Code of Iowa.

Recommendation – The Waterworks should consult legal counsel to determine the disposition of the transactions with Savage Dirt Works.

Response – We will consult with our Attorney.

Conclusion – Response accepted.

- (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 was not. Several claims were not documented as approved in the trustee minutes, nor were the claim amounts published in the newspaper, as required by Chapter 388.4 of the Code of Iowa.

Waterworks personnel indicated that the Board of Trustees approved a budget amendment for fiscal year 2013 in May, 2013. However, there is no indication in the Board of Trustee minutes that the budget amendment was approved by the Board of Trustees.

In November, 2012, the Waterworks raised the hourly wage of four employees. While the Board minutes indicate that raises were given in November, 2012, there is no indication in the minutes as to who received the wage raises, and the wage rate amounts by employee.

Recommendation - The Waterworks implement procedures to ensure all claims are approved by the Board of Trustees, and are published in the newspaper, as required by the Code of Iowa.

All budget amendments should be approved by the Board of Trustees. The approval of the budget amendments should also be documented in the Board of Trustee minutes.

All increases in the hourly wages of employees should be documented in the Board of Trustee minutes. Furthermore, the employee wage amounts should be documented in the Board of Trustee minutes, by employee.

Response – We will implement these recommendations.

Conclusion - Response accepted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2013

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.
- (8) Revenue Notes and Bonds - No instances of non-compliance with the water revenue note and bond resolutions were noted.
- (9) Delinquent Accounts - The Waterworks has not turned over delinquent accounts to either the collection agency or to the County Treasurer in several years.

Recommendation - The Waterworks consider turning over delinquent accounts to either the collection agency or to the County Treasurer for collection.

Response - We will look into this in the future.

Conclusion - Response accepted.