

CRESTON CITY WATER WORKS
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
ADDITIONAL REQUIRED AUDITOR'S REPORTS
Year Ended June 30, 2013

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CRESTON CITY WATER WORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
Lee McNichols	Chairman Trustee	December, 2013 December, 2016
Ken Sharp	Vice-Chairman Trustee	December, 2013 December, 2018
Cathy Dryden	Treasurer Trustee	December, 2013 December, 2016
William Stuart	Secretary Trustee	December, 2013 December, 2014
Valarie Allen	Trustee	December 31, 2018
Steve Yarkosky	Manager	March 31, 2016
Angie West	Office Manager	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Creston City Water Works

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Creston City Water Works as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water Works' preparation and fair presentation of the financial statements 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 Water Works' 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business-type activities of the Creston City Water Works 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.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. 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 opinions on the financial statements that collectively comprise Creston City Water Works' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 9 and 17 through 18 has not been subjected to the auditing procedures applied in our audit of the basic financial statements 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 October 24, 2013, on our consideration of Creston City Water Works' 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 Creston City Water Works' internal control over financial reporting and compliance.

D. N. Smedley, Smedley, Mikkelsen & Co., P.C.

October 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Creston Water Works provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2013. We encourage readers to consider this information in conjunction with the City of Creston Water Works' financial statements, which follow.

Financial Highlights

The City of Creston Water Works total water revenues increased by \$78,796 from the previous fiscal year. The rural water sales increased by \$93,137 from the previous fiscal year.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows.

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City of Creston Water Works' financial activities.

The City of Creston Water Works' financial statements consist of a statement of activities and net assets – cash basis. The statement provides information about the activities of the Creston Water Works as a whole and presents an overall view of the Water Works' finances.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Supplementary information provides detailed information about the annual budget.

Basis of Accounting

The City of Creston Water Works maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Water Works are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. The accounts of the Water Works 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 assets, liabilities, reserves, fund balance, receipts and disbursements. Accordingly, the financial statements do not represent financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitations resulting from the use of cash basis accounting.

Reporting the City of Creston Water Works as a Whole

The statement of activities and changes in cash balance presents information showing how the City of Creston Water Works' cash balances changed during the most recent fiscal year.

The City of Creston Water Works' activities are displayed in the statement of activities and net assets – cash basis.

The business type activities of the City of Creston Water Works include the collection of user fees for sewer, garbage, service connection and cable television service. The primary activity is the Municipal Water Utility.

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about individual significant funds. Some funds are established by State law and bond covenants. The City of Creston Water Works can establish other funds to help it control and manage money for particular purposes.

The City of Creston Water Works has Three Sources of Funds

Sewer and garbage receipts, which are billed, collected and paid to the City of Creston on a monthly basis. The primary source of revenue is from the City of Creston Water Works – water sales.

Government Wide Financial Analysis

As noted earlier, the City of Creston Water Works reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City of Creston Water Works does not report capital assets or depreciation on those assets as would be required by GAAP.

Business Type Activities – Water Works

The City of Creston Water Works cash balance for activities from a year ago, decreased by \$257,327.

The cost of all Water Works' activities this year was \$7,068,754, as compared to \$6,804,208 the last fiscal year. This includes the sewer and garbage collection payments made to the City of Creston as shown below under "Business Type Activities."

Business Type Activities

	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts		
Charges for services and sales:		
Water utility (all sources)	\$ 4,910,103	\$ 5,353,917
Sewer rental revenue	1,294,556	1,236,857
Garbage revenue	<u>606,768</u>	<u>614,902</u>
Total revenue	<u>\$ 6,811,427</u>	<u>\$ 7,205,676</u>
Disbursements:		
All water utility expenditures	\$ 5,176,042	\$ 4,891,008
Sewer rental expenditure	1,294,255	1,301,046
Garbage expenditure	<u>598,457</u>	<u>612,154</u>
Total disbursements	<u>\$ 7,068,754</u>	<u>\$ 6,804,208</u>
Increase (decrease) in cash balance	\$ (257,327)	\$ 401,468
Cash balance beginning of fiscal year	<u>2,043,861</u>	<u>1,642,393</u>
Cash balance end of fiscal year	<u>\$ 1,786,534</u>	<u>\$ 2,043,861</u>

The total business type activity receipts for the fiscal year were \$6,811,427, which includes sewer and garbage collections that are in turn paid to the City of Creston, as compared to \$7,205,676 collected the last fiscal year.

The Water Works Individual Major Funds

The City of Creston Water Works uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Water Works funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the City of Creston Water Works major funds.

City of Creston Water Works – General Fund

The General Fund is the chief operating fund of the City of Creston Water Works. At the end of the current fiscal year, the cash balance in the General Fund was \$1,786,534, a decrease of \$257,327.

The Employee Benefits Fund is included in the General Fund for revenues received and expenditures paid to the support of employee benefits for health insurance, FICA, IPERS, and unemployment benefits. The types of revenues received are the water rate revenues.

Budgetary Highlights

In accordance with the Code of Iowa, the City of Creston Water Works annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. The City of Creston Water Works did amend its operating budget at year end. The budget was approved and passed unanimously by the City of Creston Water Works Board of Trustees.

Debt Administration

At year end, the City of Creston Water Works had no debt.

Economic Factors and Next Year's Budget and Rates

The City of Creston Water Works Board of Trustees considers many factors when setting the 2013 fiscal year budget. The Water Works Board of Trustees is involved in four major projects as follows:

Project #1
Water System Improvements
Adams Street Water Main Rehabilitation and Expansion
Estimated Cost \$900,000

Project #2
Water Treatment Plant Rehabilitation
Improvements for Regulatory Compliance and Capacity Improvements
Estimated Cost \$13 Million

Project #3
Summit Lake Project
Shoreline Stabilization and Spillway Replacement
Estimated Cost \$2.1 Million

Project #4
Twelve Mile Lake Sediment Control Structure
And Purchase of Land
Estimated Cost \$800,000

These projects are in review and in all cases under construction. Applications have been submitted for grant fund assistance, low interest loans, etc. and have been approved and are moving forward under the guidance of the City of Creston Water Works Board of Trustees.

The City of Creston Water Works Board of Trustees has reviewed the needs of all the projects budgeted in for the 2012-2013 fiscal year. Portions of these projects will continue on through fiscal year 2013 and 2014.

In addition to the projects stated above, other items of importance to the Water Works Board of Trustees are return on investments and the cost of employee benefits.

These factors all contributed when adopting the fiscal year 2013-2014 budget. The budget includes all business type activities, including sewer, garbage and water expenditures. Steps implemented by the Water Works Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2013-2014 fiscal year budget.

Contacting the City of Creston Water Works Financial Management

This financial report is designed to provide our rate-payers and creditors with a general overview of the City of Creston Water Works' finances and to show the City of Creston Water Works accountability for the money it receives. If you have questions about this report or need additional information, contact Steve Yarkosky, General Manager, City of Creston Water Works, 820 South Park Street, P.O. Box 405, Creston, IA 50801.

FINANCIAL STATEMENTS

CRESTON CITY WATER WORKS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and For the Year Ended June 30, 2013

Exhibit A

		Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Business type activities				
Water	\$ 7,068,754	\$ 4,564,549	\$ -	\$ 1,398,389
Total business type activities	\$ 7,068,754	\$ 4,564,549	\$ -	\$ 1,398,389
General receipts:				
Interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				

The Notes to Financial Statements are an integral part of this statement.

Net (Disbursements),
Receipts and Changes
In Cash Basis Net Assets

Business
Type
Activities

\$ (1,105,816)

\$ (1,105,816)

\$ 6,381
842,108

\$ 848,489

\$ (257,327)

2,043,861

\$ 1,786,534

CRESTON CITY WATER WORKS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and For the Year Ended June 30, 2013

	Exhibit B
	<u>Enterprise Funds</u>
Operating receipts:	
Charge for service	\$ 4,564,549
Intergovernmental	<u>1,398,389</u>
Total operating receipts	<u>\$ 5,962,938</u>
Operating disbursements:	
Business type activities	<u>\$ 7,068,754</u>
Total operating disbursements	<u>\$ 7,068,754</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (1,105,816)</u>
Non-operating receipts (disbursements):	
Interest on investment	\$ 6,381
Miscellaneous	<u>842,108</u>
Total non-operating receipts (disbursements)	<u>\$ 848,489</u>
Excess (deficiency) of receipts over (under) disbursement:	\$ (257,327)
Operating transfers out	<u>-</u>
Net change in cash balances	\$ (257,327)
Cash balances, beginning of year	<u>2,043,861</u>
Cash balances, end of year	<u><u>\$ 1,786,534</u></u>
Cash basis fund balances	
Reserved for customer deposits	\$ 210,431
Unreserved	<u>1,576,103</u>
Total cash basis fund balances	<u><u>\$ 1,786,534</u></u>

The Notes to Financial Statements are an integral part of this statement.

CRESTON CITY WATER WORKS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Significant Accounting Policies

The Creston City Water Works is a governmental subdivision of the State of Iowa located in Union County. It was incorporated in the mid 1930's. The Water Works Board of Trustees is appointed by the Mayor of Creston and approved by the Creston City Council. The Water Works provides water services to Creston area residents and surrounding counties.

Reporting Entity:

The financial statements include all funds of the Creston City Water Works. The Water Works has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Works to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Works.

The Creston City Water Works is a component unit of the City of Creston.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Water Works. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets – cash basis presents the Water Works' nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CRESTON CITY WATER WORKS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Significant Accounting Policies (continued):

The Statement of Activities and Net Assets – cash basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Water Works reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

Basis of Accounting:

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

Proprietary 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 a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting:

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

CRESTON CITY WATER WORKS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 2. Deposits and Investments

The Water Works' 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 members of the pool to insure there will be no loss of public funds.

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

The Water Works' investments are categorized to give an indication of the level of risk assumed by the Water Works at year-end. The Water Works' investment at June 30, 2013, consisted of Certificates of Deposits and are not subject to risk categorization.

Note 3. Pension and Retirement Benefits

The Water Works 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.

Most regular plan members are required to contribute 5.78% of their annual salary and the Water Works is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Water Works' contribution to IPERS for the year ended June 30, 2013, 2012, and 2011 were \$77,479, \$67,359, and \$51,335 respectively, equal to the required contribution for the year.

Note 4. Related Parties

The City of Creston has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

CRESTON CITY WATER WORKS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

Note 4. Related Parties (continued)

The Water Works determines fees charged to users and also charges the City for usage. The Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The Water Works remitted \$1,307,673 for sewer rental and \$607,214 for garbage collections to the City for the year ended June 30, 2013. The Water Works received from the City \$9,961 for utilities.

The Creston City Water Works and City of Creston are covered under the same property insurance policy. Each year the City pays the total premium and the Water Works reimburses the City for its share of the cost. In 2013, the Water Works reimbursed the City of Creston \$65,298 for insurance.

During the year ended June 30, 2013, the City provided employees of both the City and Water Works with payments of co-insurance and deductibles for health insurance. The Water Works remitted to the City \$241,273 for health insurance premiums for the year ended June 30, 2013. The City's plan is self-funded and pays claims from its employee benefits special revenue fund up to maximum limits and carries stop loss insurance for claims in excess of limits.

Note 5. Compensated Absences

Water Works' employees accumulate a limited amount of earned but unused leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Works until used or paid. The Water Works approximate liability for earned leave termination payments payable to employees at June 30, 2013, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Compensated absences	\$ 69,484
Sick leave	<u>54,661</u>
	<u>\$124,145</u>

This liability has been computed based on rates of pay as of June 30, 2013.

CRESTON CITY WATER WORKS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 6. Risk Management

The Creston City Water Works 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Major Customer

A material part of the Water Works' business is dependent upon Southern Iowa Rural Water Association (SIRWA), the loss of which could have a materially adverse effect on the Water Works. During the year ended June 30, 2013, SIRWA accounted for approximately 80% of the water sales. The Water Works has a contract to provide water to SIRWA through April, 2032.

Note 8. The Water Works requested the Office of Auditor of State perform a special investigation of the Water Works as a result of concerns regarding certain purchases and other financial transactions authorized by the Water Works' former General Manager. The Auditor of State's special investigation identified improper and unsupported disbursements of \$89,837 between July 1, 2005 and November 16, 2012

Copies of the Auditor of State's special investigation report were filed with the Union County Attorney's Office, the Attorney General's Office and the Division of Criminal Investigation.

Note 9. Subsequent Event

In October 2013, the Water Works approved a contract for additional concrete improvement at the distribution shop location in the amount of \$21,658.

The Water Works received notice in October 2013 of a lawsuit filed against the Water Works by the former general manager. The lawsuit alleges breach of employment contract and failure to pay wages owed. The lawsuit is currently in the preliminary stages. However, preliminary estimates are if the Water Works were to lose the lawsuit in every respect, the potential damages are in the range of \$127,000 to \$250,000.

Management has evaluated subsequent events through October 24, 2013, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CRESTON CITY WATER WORKS
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS)
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2013

	<u>Actual</u>	<u>Less Garbage and Sewer not Budgeted for</u>	<u>Creston City Water Works Net Actual</u>
RECEIPTS:			
Property tax	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Use of money and property	6,381	-	6,381
Intergovernmental	1,398,389	-	1,398,389
Charges for services	4,564,549	1,914,707	2,649,842
Special assessments	-	-	-
Miscellaneous	842,108	-	842,108
	<u> </u>	<u> </u>	<u> </u>
Total receipts	<u>\$ 6,811,427</u>	<u>\$ 1,914,707</u>	<u>\$ 4,896,720</u>
DISBURSEMENTS:			
Public safety	\$ -	\$ -	\$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Business type activities	7,068,754	1,914,707	5,154,047
	<u> </u>	<u> </u>	<u> </u>
Total disbursements	<u>\$ 7,068,754</u>	<u>\$ 1,914,707</u>	<u>\$ 5,154,047</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (257,327)	\$ -	\$ (257,327)
OTHER FINANCING SOURCES, NET	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ (257,327)	\$ -	\$ (257,327)
BALANCE BEGINNING OF YEAR	<u>2,043,861</u>	<u>-</u>	<u>2,043,861</u>
BALANCE END OF YEAR	<u><u>\$ 1,786,534</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,786,534</u></u>

The Notes to Financial Statements are an integral part of this statement.

Final City of Creston Published Budget	Less City of Creston Budget	Creston City Water Works Budget	Water Works Variance Favorable (Unfavorable)
\$ 2,360,388	\$ 2,360,388	\$ -	\$ -
643,115	643,115	-	-
1,056,170	1,056,170	-	-
57,980	57,980	-	-
74,620	74,620	-	6,381
2,225,968	2,225,968	-	1,398,389
7,373,174	2,340,574	5,032,600	(2,382,758)
-	-	-	-
700,813	700,813	-	842,108
<u>\$ 14,492,228</u>	<u>\$ 9,459,628</u>	<u>\$ 5,032,600</u>	<u>\$ (135,880)</u>
\$ 1,577,142	\$ 1,577,142	\$ -	\$ -
2,625,157	2,625,157	-	-
-	-	-	-
1,508,827	1,508,827	-	-
70,869	70,869	-	-
2,870,444	2,870,444	-	-
1,359,061	1,359,061	-	-
504,936	504,936	-	-
<u>5,966,280</u>	<u>933,680</u>	<u>5,032,600</u>	<u>(121,447)</u>
<u>\$ 16,482,716</u>	<u>\$ 11,450,116</u>	<u>\$ 5,032,600</u>	<u>\$ (121,447)</u>
\$ (1,990,488)	\$ (1,990,488)	\$ -	\$ (257,327)
58,422	58,422	-	-
\$ (1,932,066)	\$ (1,932,066)	\$ -	<u>\$ (257,327)</u>
8,309,077	8,309,077	-	
<u>\$ 6,377,011</u>	<u>\$ 6,377,011</u>	<u>\$ -</u>	

CRESTON CITY WATER WORKS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2013

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Water Works' budget is submitted with the City of Creston's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Water Works budget is included in the business type activities function. During the year, one budget amendment for the Water Works increased budgeted disbursements by \$950,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted in the business-type activities.

OTHER SUPPLEMENTARY INFORMATION

CRESTON CITY WATER WORKS
 UNAUDITED SCHEDULE OF OPERATING STATISTICS
 Year Ended June 30, 2013

Schedule 1

	Year Ended June 30,-----		
	2013	2012	2011
Number of customers	3,440	3,429	3,465
Number of gallons billed	1,406,565,240	1,386,587,800	1,265,128,102
Number of gallons pumped	1,435,617,000	1,431,365,025	1,305,635,520
% of gallons billed to total pumped	98%	97%	97%

Water rates in effect at June 30, 2013

Cubic Feet Used Per Month	Rate Per 100 Cubic Feet of Usage
0 - 2,000	\$ 3.24*
2,001 - 8,000	2.49
8,001 - 32,000	1.99
32,001 and over	1.59

*Minimum charge per month is \$9.07

The Water Works and the City of Creston are covered under one insurance policy. The Water Works reimburses the City annually for its portion of the insurance premium. At June 30, 2013, the following coverages were in effect:

Fire and extended coverage:	
Buildings and contents	\$17,410,092
Liability:	
Umbrella excess policy	3,000,000
Linebacker liability	1,000,000
Workmen's compensation	Statutory
Comprehensive automobile policy	1,000,000
Employee Benefit Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Employees crime coverage	200,000
Bond on Water Works manager	350,000

The foregoing operating statistics and insurance information are presented on the basis of unaudited records maintained in the Water Works office. The amounts and accuracy of the operating statistics were not investigated by the auditors.

See accompanying independent auditor's report.

CRESTON CITY WATER WORKS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2013

Schedule 2

<u>Federal grantor/pass-through grant/program name</u>	<u>Federal CFDA* Number</u>	<u>Total Federal Expenditures</u>
U. S. Department of Housing and Urban Development:		
Iowa Department of Economic Development		
City of Creston, Iowa:		
Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii	14.228	\$ 708,961
U. S. Department of Homeland Security:		
Iowa Department of Public Defense:		
Iowa Homeland Security and Emergency Management Division:		
Federal Emergency Management Agency Disaster grants - public assistance	97.036	9,397
Total federal expenditures		\$ 718,358

*Catalog of Federal Domestic Assistance

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Creston City Water Works and is presented in conformity with another comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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

To the Board of Trustees of the
Creston City Water Works

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities, of the Creston City Water Works, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Creston City Water Works' basic financial statements and have issued our report thereon dated October 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Creston City Water Works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Creston City Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Creston City Water Works' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Creston City Water Works' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Creston City Water Works' Response to Findings

Creston City Water Works' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Creston City Water Works' response was not subjected to the auditing procedures applied in the audit of the financial statements 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Drapen, Smidgrasso, Mickelheim + Co., P.C.

October 24, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees of the
Creston City Water Works

Report on Compliance for Each Major Federal Program

We have audited Creston City Water Works' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Creston City Water Works' major federal programs for the year ended June 30, 2013. Creston City Water Works' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Creston City Water Works' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contain in Government Auditing Standards, issued by the Controller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Creston City Water Works' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Creston City Water Works' compliance.

Opinion on Each Major Federal Program

In our opinion, Creston City Water Works complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Creston City Water Works is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Creston City Water Works' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Creston City Water Works' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items to be significant deficiencies.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Creston City Water Works' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Creston City Water Works' responses and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Drapen, Smidgrasso, Mickelheim + Co., P.C.

October 24, 2013

CRESTON CITY WATER WORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

PART I. SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. Significant deficiencies in internal control over financial reporting were reported by the audit of the financial statements and no material weaknesses were reported.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. Significant deficiencies in internal control over major programs were reported by the audit of the financial statements and no material weaknesses were reported.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133 Section 510(a).
- g. Major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State Programs and Non-Entitlement Grants in Hawaii
- h. The dollar threshold used to distinguish between type a and type b programs was \$300,000.
- i. Creston City Water Works did not qualify as a low risk auditee.

PART II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

- 2013-II-A Segregation of duties: A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Creston City Water Works.

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

Response: We have reviewed this recommendation and we will review our procedures to obtain the maximum control possible.

Conclusion: Response acknowledged.

PART III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Instances of Noncompliance

No matters were reported.

Significant Deficiencies:

2013-III-A Segregation of Duties: A limited number of people have the primary responsibility for most of the account and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Organization. See audit finding 2013-II-A.

PART IV. Other Findings Related to Required Statutory Reporting:

2013-IV-A Depository Banks - A resolution naming official depositories has been adopted by the board of trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.

2013-IV-B Certified Budget - Disbursements during the year ended June 30, 2013, did not exceed amounts budgeted in the business type activities function.

2013-IV-C Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2013-IV-D Travel Expense - No expenditures of Water Works' money for travel expenses of spouses of Water Works' officials or employees were noted.

2013-IV-E Business Transactions – Business transactions between the Water Works and Water Works' officials or employees are detailed as follows:

<u>Name, title and business connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bill Stuart, Board Member Owner of Hi-Crest Auto	Repairs	\$ 948

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board Members do not appear to represent conflicts of interest since total of each transaction was less than \$1,500 during the fiscal year.

2013-IV-F Bond Coverage - Surety bond coverage of Water Works' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2013-IV-G Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

The Water Works published all annual gross salaries as required by an Attorney General's opinion dated April 12, 1979.

Although the Board minutes were published, they were not published within fifteen day as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - We recommend the Water Works comply with Chapter 372.13(6) of the Code of Iowa.

Water Works' Response - The Creston City Water Works Board of Trustees meets once a month on the second Tuesday of the month. The minutes from the previous meeting need to be approved by the Board before publication. This requires 30-35 days before publication can be met. The City of Creston Water Works will request modification to the Code of Iowa so publication requirements can be met.

Conclusion - Response acknowledged.

The Board went into closed session on several dates. However, the minutes 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 Water Works should comply with Chapter 21 of the Code of Iowa.

Response – The Water Works has reviewed the recommendation and will review our procedures for complying with Chapter 21 of the Code of Iowa.

Conclusion – Response acknowledged.

2013-IV-H Deposits and Investments - The Water Works has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.