

CENTERVILLE MUNICIPAL WATERWORKS  
CENTERVILLE, IOWA

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

June 30, 2015

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CENTERVILLE MUNICIPAL WATERWORKS

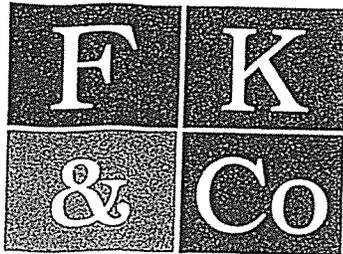
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Milani	Chairperson	August, 2020
Nancy Bennett *	Trustee	August, 2018
Frank Belloma	Trustee	August, 2018
Bev Jewitt	Trustee	August, 2017
Glenn Moritz**	Trustee	August, 2018
Ryan Stober	Trustee	August, 2018

\* - Resigned as of September, 2014.

\*\* - Appointed in December, 2014.

Centerville Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Centerville Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, (Waterworks) as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks 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 presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2015, 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, 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. Our opinion is not modified with respect to this matter.

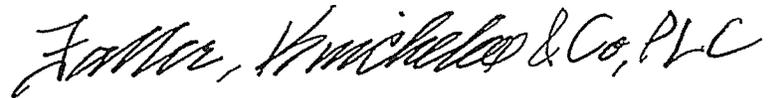
Other Matters

*Other Information*

The other information, the Waterworks' Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 16 through 17 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2016, on our consideration of Waterworks internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Waterworks internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
March 22, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Centerville Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### 2015 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks totaled \$2,675,787, which represents an increase of 4% from fiscal year 2014 to fiscal year 2015.

Disbursements totaled \$2,676,481, which represents a decrease of 9% from fiscal year 2014 to fiscal year 2015.

The Waterworks total cash basis net assets decreased .1%, or \$694 from June 30, 2014 to June 30, 2015.

### USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

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

Supplementary Information provides detailed information about the individual Enterprise Accounts.

## FINANCIAL ANALYSIS OF THE WATERWORKS

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

The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in the cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. The City of Centerville pays the Waterworks to include sewer and storm water charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer, data entry of meter reads and sales tax computation. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2015 and June 30, 2014 is presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2015	2014
<b>Receipts:</b>		
Use of money and property	\$ 15,425	18,150
Charges for service	1,158,346	1,070,333
Sewer and storm water fees collected for City	1,367,253	1,379,552
Miscellaneous	134,763	105,064
Total receipts	<u>2,675,787</u>	<u>2,573,099</u>
<b>Disbursements</b>		
Business type activities	963,073	964,170
Sewer and storm water fees remitted to City	1,367,253	1,369,268
Debt service:		
Principal paid	-	322,000
Interest paid	-	5,608
Capital outlay	346,155	284,574
Total disbursements	<u>2,676,481</u>	<u>2,945,620</u>
Net change in cash balance	(694)	(372,521)
Cash balance beginning of year	<u>620,975</u>	<u>993,496</u>
Cash balance end of year	<u>\$ 620,281</u>	<u>620,975</u>
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Sewer charges	\$ 3,151	3,151
Customer water deposits	61,623	26,988
Total restricted cash basis fund balance	<u>64,774</u>	<u>30,139</u>
Unrestricted	<u>555,507</u>	<u>590,836</u>
Total cash basis fund balance	<u>\$ 620,281</u>	<u>620,975</u>

The Waterworks' unrestricted cash balance is available for use in the routine operations of the distribution and administrative areas of the Waterworks and for capital improvements in the distribution areas. The Waterworks' restricted cash balances are for sewer charges due to the City of Centerville and customer water deposits.

### **BUDGETARY HIGHLIGHTS**

The Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Centerville. There was not a budget amendment in fiscal year 2015.

The Waterworks' charges for service receipts were \$141,346 more than budgeted as water and sewer consumption was higher than as anticipated. The Waterworks' disbursements were \$227,369 less than budgeted for the year as a result of projects being completed under budget by the Waterworks.

### **ECONOMIC FACTORS**

The Waterworks appointed officials considered many factors when setting the fiscal year 2016 budget, including water main replacements, upkeep of current mains and fees that will be charged. Adjustments in our water rates were scheduled to be made in fiscal year 2016 to coincide with the rate of inflation.

### **CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional information, contact Patrick Antonen, City Administrator, 312 East Maple Street, PO Box 578, Centerville, Iowa 52544.

**Financial Statement**

CENTERVILLE MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCE

As of and for the year ended June 30, 2015

Operating receipts:	
Charges for service	\$ 1,158,346
Miscellaneous	134,763
Total operating receipts	<u>1,293,109</u>
Operating disbursements:	
Business type activities	963,073
Total operating disbursements	<u>963,073</u>
Excess of operating receipts over operating disbursements	<u>330,036</u>
Non-operating receipts (disbursements):	
Interest on investments	252
Rental income	15,173
Sewer and storm water fees collected for City	1,367,253
Sewer and storm water fees remitted to City	(1,367,253)
Capital outlay	(346,155)
Net non-operating receipts (disbursements)	<u>(330,730)</u>
Change in cash balance	(694)
Cash balance beginning of year	<u>620,975</u>
Cash balance end of year	<u>\$ 620,281</u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Sewer charges	\$ 3,151
Customer water deposits	61,623
Unrestricted	<u>555,507</u>
Total cash basis fund balance	<u>\$ 620,281</u>

See notes to financial statement.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Centerville Municipal Waterworks (Waterworks) is a component unit of the City of Centerville, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member Board of Trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

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

D. Restricted Fund Balance

Funds set aside for sewer charges due to the City and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Cash Equivalents

The Waterworks' deposits in banks at June 30, 2015 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.

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

Note 3. Related Party Transactions

The Waterworks had business transactions between the Waterworks and the Waterworks officials totaling \$403 during the year ended June 30, 2015.

Note 4. Risk Management

The City of Centerville is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The policy is in the City of Centerville's name; however, the Waterworks reimburses the City its share of the cost of the insurance policy. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' contributions to the City for the Pool for the year ended June 30, 2015 were \$3,481.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Waterworks does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the Waterworks' financial statement. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Note 4. Risk Management (continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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

Note 5. Lease Agreement

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (tenant). This lease was entered into in February of 2009. The Waterworks received \$13,373 from this lease in fiscal year 2015. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until 2029. After twenty years from the date of the lease, the Waterworks can then terminate this lease with the tenant by giving one year written notice of the date of such termination. As long as this lease is in effect, each year the base rent for this lease will be increased by 3% over the previous year's base rent.

Note 6. Water Purchase Contract

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

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2015, approximately 189,104,000 gallons of water were paid for by the Waterworks, at a total cost of \$370,900. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Rathbun Regional Water Association.

Note 7. 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.

Note 8. Subsequent Events

The Waterworks has evaluated subsequent events through March 22, 2016, which is the date that the financial statement was available to be issued.

Other Information

CENTERVILLE MUNICIPAL WATERWORKS

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

Year ended June 30, 2015

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Original to Net Variance
Receipts:					
Use of money and property	\$ 15,425	-	15,425	-	15,425
Charges for service	2,525,599	1,367,253	1,158,346	1,017,000	141,346
Miscellaneous	134,763	-	134,763	58,750	76,013
Total receipts	<u>2,675,787</u>	<u>1,367,253</u>	<u>1,308,534</u>	<u>1,075,750</u>	<u>232,784</u>
Disbursements:					
Business type activities	<u>2,676,481</u>	<u>1,367,253</u>	<u>1,309,228</u>	<u>1,536,597</u>	<u>227,369</u>
Change in cash balance	(694)	-	(694)	<u>(460,847)</u>	<u>460,153</u>
Cash balance beginning of year	<u>620,975</u>	<u>3,151</u>	<u>617,824</u>		
Cash balance end of year	<u>\$ 620,281</u>	<u>3,151</u>	<u>617,130</u>		

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

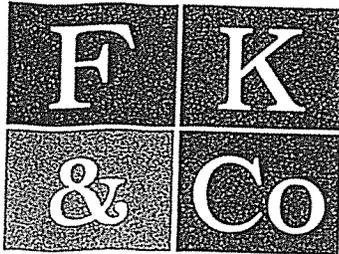
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2015

The Centerville 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, which includes the Waterworks, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended June 30, 2015, disbursements did not exceed the amounts budgeted.



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  
Centerville Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Centerville Municipal Waterworks, Centerville, Iowa (Waterworks), as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated March 22, 2016. 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. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D), (E), (H), and (J) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (F), (G) and (I) to be significant deficiencies.

### 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, 2015 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 the 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 of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
March 22, 2016

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Findings Related to the Financial Statement:

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, bank accounts are not reconciled by an individual who does not handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

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

Response – We will consider this.

Conclusion – Response acknowledged.

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

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

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

- (C) Bank Reconciliations – Although bank reconciliations were prepared, the bank reconciliations completed for some months during the year ended June 30, 2015 contained material inaccuracies. Appropriate adjustments were made to the June 30, 2015 bank reconciliation in order to obtain materially accurate bank reconciliation amounts. Accurate bank reconciliations are necessary to provide assurance on the accuracy of the underlying accounting data.

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

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

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

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (D) Utility Rates, Collections and Procedures – Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. The base water rates were increased in 2014. However, the base water rate changes in 2014 only documented the increases in the water rates and did not document the actual water rates that should be charged. The Waterworks was unable to locate any resolutions which documented the water rates that should be charged.

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

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa. In addition, the Waterworks should ensure the water rates charged agree to the water rates as documented in the rules and regulations.

Response – We will establish water utility rates by resolution of the trustees, and publish them accordingly.

Conclusion – Response acknowledged.

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

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

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

Response – We will work on implementing these recommendations.

Conclusion – Response acknowledged.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

- (F) Accounting Structure – The Waterworks has enterprise fund accounts such as a sinking account, CDBG/SRF account, reserve account and an improvement account. These accounts do not currently appear to have a defined purpose. Excess accounts on the accounting system without a defined purpose increases the likelihood of errors and makes the analysis of the Waterworks financial statements more complex.

Recommendation – The Waterworks should review its accounting structure to ensure the accounts used have a defined purpose.

Response – We will work on implementing these recommendations.

Conclusion – Response acknowledged.

- (G) Water Purchases – The Waterworks purchases all of its water from Rathbun Regional Water Association to provide water to residents. The Waterworks is responsible for reading residents meters, monthly billings and collections. The Waterworks does not compare the gallons of water purchased by the Waterworks to the gallons of water sold to its customers. This data may be useful to help the Waterworks obtain grants, to help identify potential unauthorized use of water services and to identify if there is a problem with water leaks in the City.

Recommendation – The Waterworks should implement procedures to compare gallons of water purchased to the gallons of water billed.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (H) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. In addition, for several months, a delinquent accounts listing and billing registers were either not prepared or retained. A reconciliation is designed to ensure the proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis, and all billing registers should be generated and retained. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Board of Trustees or a Board of Trustee-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – These procedures will be implemented.

Conclusion – Response acknowledged.

- (I) Meter Deposits – The Waterworks accounting system is keeping track of the meter deposits on hand, by customer. However, there is no reconciliation of the dollar value of the detailed list of meter deposits on hand with the cash balance in the meter deposit account.

Recommendation – The Waterworks should implement procedures to ensure the meter deposit amounts by customer are identified. In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system on a monthly basis.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (J) Material Adjustments – We proposed adjusting journal entries that were material to the Waterworks accounting records and financial statements.

Recommendation – We recommend that all balances at month and year end be reviewed for accuracy and completeness.

Response – We will take the recommendations you have made under advisement and make changes to our procedures to ensure the accuracy of the Waterworks accounting records.

Conclusion – Response acknowledged

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Centerville includes an amount for the Centerville Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted in the business type activities function of the Waterworks.
- (2) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) Business Transactions - Business transactions between the Waterworks and Waterworks' officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ryan Stober, Board Member Owner of Centerville Produce	Supplies	\$ 403

In accordance with Chapter 362.5 of the Code of Iowa, these transactions do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (7) Deposits and Investments - Instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the investment requirements were noted.

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

Recommendation – The Waterworks should establish an investment policy which complies with the provisions of Chapter 12B.10 of the Code of Iowa.

Response – We will review this with our Attorney to ensure compliance with these requirements.

Conclusion – Response acknowledged.

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

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

Response – We will implement these recommendations.

Conclusion – Response acknowledged.