



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

January 9, 2013

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Auditor of State David A. Vaudt today released an audit report on the Perry Municipal Waterworks, Perry, Iowa.

The Waterworks' receipts totaled \$2,564,662 for the year ended June 30, 2012, a 50% increase over the prior year. The receipts included \$1,504,806 in charges for service, miscellaneous operating receipts of \$147,229, \$18,216 of rental income, \$5,041 in interest on investments, \$257,370 in sewer and garbage fees collected for the City of Perry and refunding bond proceeds of \$632,000.

Disbursements for the year totaled \$2,428,732, a 54% increase over the prior year, and included operating disbursements of \$1,191,832, debt service of \$94,074, capital outlay of \$165,456, payments to refund revenue bonds and notes of \$719,000 and \$257,370 for sewer and garbage fees remitted to the City of Perry.

A copy of the audit report is available for review in the office of the Perry Municipal Waterworks, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports/1223-0237-B00F.pdf>.

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

JUNE 30, 2012

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Perry Municipal Waterworks

Officials

(Before January 2012)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Marcus Carris	Chairperson/Trustee	April 2013
Lori Lott	Trustee	April 2015
Lonnie Ostransky	Trustee	April 2017
David Modlin	Superintendent	Indefinite
Pamela Ballard	Secretary	Indefinite

(After January 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marcus Carris	Chairperson/Trustee	April 2013
Lori Lott	Trustee	April 2015
Lonnie Ostransky	Trustee	April 2017
David Modlin	Superintendent	(Resigned June 2012)
Butch Niebuhr	Interim Superintendent	Indefinite
Pamela Ballard	Secretary	Indefinite

Perry Municipal Waterworks



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Independent Auditor's Report

To the Board of Trustees of the
Perry Municipal Waterworks:

We have audited the accompanying financial statement of the Perry Municipal Waterworks, Perry, Iowa, as of and for the year ended June 30, 2012. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Perry Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Perry that is attributable to the transactions of the Waterworks.

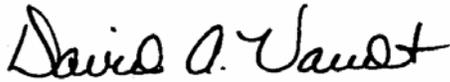
In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Perry Municipal Waterworks as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2012 on our consideration of the Perry Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement of the Perry Municipal Waterworks. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in our audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Perry Municipal Waterworks' basic financial statement. Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 20 through 22 are presented for purposes of additional analysis and are not required parts of the financial statement. This information has not been subjected to the auditing procedures applied in our audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance of it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Perry Municipal 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, 2012. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

2012 FINANCIAL HIGHLIGHTS

- The Waterworks' total receipts increased 50.0%, or approximately \$855,000, from fiscal year 2011 to fiscal year 2012. The Waterworks raised water rates in April 2011 and received revenue bond proceeds of \$632,000 in July 2011.
- The Waterworks' total disbursements increased 54.3%, or approximately \$855,000, from fiscal year 2011 to fiscal year 2012. The Waterworks made additional payments to refund \$719,000 of bond and note principal during fiscal year 2012.
- The Waterworks' total cash basis net assets increased 23.1%, or approximately \$136,000, from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

The Notes to Financial 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 Funds. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2012.

FINANCIAL ANALYSIS OF THE PERRY MUNICIPAL WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

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

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. The City of Perry pays the Perry Municipal Waterworks contract fees to include sewer and garbage charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2012 is presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30	
	2012	2011
Receipts:		
Use of money and property	\$ 23,257	\$ 6,062
Charges for service	1,504,806	1,276,509
Sewer and garbage fees collected for City	257,370	242,721
Bond proceeds	632,000	-
Miscellaneous	147,229	184,711
Total receipts	<u>2,564,662</u>	<u>1,710,003</u>
Disbursements:		
Plant operation and maintenance	590,928	558,883
Distribution operation and maintenance	207,363	191,582
Administration	393,541	355,396
Sewer and garbage fees remitted to City	257,370	242,721
Debt service:		
Principal redeemed	80,000	76,000
Interest paid	14,024	29,840
Service fees	1,050	610
Capital outlay	165,456	118,917
Payments to refund bonds and notes	719,000	-
Total disbursements	<u>2,428,732</u>	<u>1,573,949</u>
Net change in cash basis net assets	135,930	136,054
Cash basis net assets beginning of year	589,150	453,096
Cash basis net assets end of year	<u>\$ 725,080</u>	<u>\$ 589,150</u>

The Waterworks' unrestricted net assets are available for use in the routine operation of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Perry Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted net assets are restricted funds for the repayment of the revenue refunding bonds issued in 2011 and customer water deposits.

BUDGETARY HIGHLIGHTS

The Perry Municipal Waterworks did not amend its budget during the fiscal year ended June 30, 2012.

The Waterworks' charges for service receipts were \$35,556 more than budgeted. The increase is due to higher than projected water fee collections. The Waterworks' disbursements were \$14,217 more than budgeted for the year. This was primarily due to the cost of replacing and upgrading the Waterworks' computer system which was not budgeted.

DEBT ADMINISTRATION

During fiscal year 2012, the Perry Municipal Waterworks issued \$640,000 of water revenue refunding bonds and committed an additional \$100,000 to refund \$289,000 of revenue bonds and retire \$430,000 of revenue notes. At June 30, 2012, the Perry Municipal Waterworks had a total of \$560,000 of revenue refunding bond debt outstanding.

ECONOMIC FACTORS

The Perry Municipal Waterworks raised water rates in April 2011 to improve its financial position. Current economic conditions beyond the Perry Municipal Waterworks Trustees control play a significant roll in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

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

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Perry Municipal Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Perry Municipal Waterworks, 1101 W 3rd Street, PO Box 604, Perry, Iowa 50220.

Perry Municipal Waterworks

Financial Statement

Exhibit A

Perry Municipal Waterworks

Statement of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2012

Operating receipts:	
Charges for service	\$ 1,504,806
Miscellaneous	147,229
Total operating receipts	<u>1,652,035</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	590,928
Distribution operation and maintenance	207,363
Administration	393,541
Total operating disbursements	<u>1,191,832</u>
Excess of operating receipts over operating disbursements	<u>460,203</u>
Non-operating receipts (disbursements):	
Interest on investments	5,041
Rental income	18,216
Refunding bond proceeds, net of \$8,000 discount	632,000
Sewer and garbage fees collected for City	257,370
Sewer and garbage fees remitted to City	(257,370)
Debt service	(95,074)
Capital outlay	(165,456)
Payments to refund bonds and notes	(719,000)
Net non-operating receipts (disbursements)	<u>(324,273)</u>
Change in cash basis net assets	135,930
Cash basis net assets beginning of year	<u>589,150</u>
Cash basis net assets end of year	<u>\$ 725,080</u>
Cash Basis Net Assets	
Restricted:	
Bond principal and interest payments	\$ 130,431
Customer water deposits	83,635
Total restricted net assets	<u>214,066</u>
Unrestricted	<u>511,014</u>
Total cash basis net assets	<u>\$ 725,080</u>

See notes to financial statement.

Perry Municipal Waterworks

Notes to Financial Statement

June 30, 2012

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Perry Municipal Waterworks is a component unit of the City of Perry, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

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

D. Restricted Assets and Net Assets

Funds set aside for bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the 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.

(3) Revenue Bonds Payable

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

Year Ending June 30,	Water Revenue Refunding Bonds			
	Issued July 26, 2011			
	Interest Rates	Principal	Interest	Total
2013	1.10%	\$ 85,000	10,573	95,573
2014	1.65	90,000	9,637	99,637
2015	1.65	85,000	8,151	93,151
2016	1.90	100,000	6,750	106,750
2017	2.25	100,000	4,850	104,850
2018	2.60	100,000	2,600	102,600
Total		\$ 560,000	42,561	602,561

The Waterworks has pledged future water customer receipts, net of specified operating disbursements to repay \$640,000 of water revenue refunding bonds issued in July 2011. The bonds were issued for the purpose of refunding and early retirement of the Waterworks' outstanding water revenue bonds/notes. The Waterworks refunded and paid off the bonds/notes, after committing an additional \$100,000, to reduce its total debt service payments by approximately \$55,700 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$41,700. The refunding bonds are payable solely and only out of the net earnings of the Waterworks and are payable through 2018. The total principal and interest remaining to be paid on the refunding bonds is \$602,561. For the current year, principal and interest paid on the refunding bonds and total customer net receipts were \$89,703 and \$460,203, respectively. Annual principal and interest payments on these water revenue refunding bonds are expected to require less than 20% of net receipts.

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

- (a) The Board shall provide for the collection of rates sufficient to pay the expenses of the utility and to leave a balance of net revenues equal to at least 110% of the principal and interest due in the fiscal year.

- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (c) A reserve fund shall be established and maintained in the amount of the lesser of: the maximum amount of the principal and interest coming due on the bonds in any succeeding fiscal year, 10% of the principal amount of the bonds then outstanding, which is \$56,000, or 125% of the average amount of principal and interest coming due on the bonds in any succeeding fiscal year.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the Waterworks is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The Waterworks' contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$39,234, \$32,992 and \$31,958, respectively, equal to the required contributions for each year.

(5) Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned compensated absences payable to employees at June 30, 2012 is \$27,000. This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) Risk Management

The Waterworks is included under the insurance for the City of Perry. The City of Perry is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' contributions to the Pool for the year ended June 30, 2012 were \$17,155.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Waterworks is also included under the City of Perry's commercial insurance purchased from other insurers for coverage associated with worker's compensation. 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.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The Waterworks operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$277 for single coverage and \$1,055 for family coverage. For the year ended June 30, 2012, the Waterworks contributed \$123,001 and plan members eligible for benefits contributed \$6,473 to the plan.

(8) Water Tank Maintenance Contract

In December 2008, the Waterworks entered into an agreement with Utility Service Co. for the maintenance of the water tower, including annual inspections of the tank, repairs, and the cleaning and repainting of the interior and exterior of the tank. The agreement was amended in May 2010 to include maintenance for the mixing system. The contract is for an indefinite period of time. Beginning in contract year ten and each third anniversary thereafter, the annual fee can be adjusted to reflect the current cost of service, with a maximum change of 5% per annum. The Waterworks is scheduled to pay quarterly installments of \$11,401 on the contract. During the year ended June 30, 2012, the Waterworks paid \$45,605 on the contract.

Perry Municipal Waterworks

Other Information

Perry Municipal Waterworks

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2012

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Use of money and property	\$ 23,257	-
Charges for service	1,762,176	257,370
Miscellaneous	147,229	-
Total receipts	<u>1,932,662</u>	<u>257,370</u>
Disbursements:		
Business type activities	<u>1,709,732</u>	<u>257,370</u>
Excess of receipts over disbursements	222,930	-
Other financing sources (uses)	<u>(87,000)</u>	-
Change in cash basis net assets	135,930	-
Cash basis net assets beginning of year	<u>589,150</u>	-
Cash basis net assets end of year	<u>\$ 725,080</u>	<u>-</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts <u>Original and Final</u>	Final to Net Variance
23,257	23,360	(103)
1,504,806	1,469,250	35,556
147,229	145,000	2,229
1,675,292	1,637,610	37,682
1,452,362	1,438,145	(14,217)
222,930	199,465	23,465
(87,000)	-	(87,000)
135,930	199,465	(63,535)
589,150	812,225	(223,075)
725,080	1,011,690	(286,610)

Perry Municipal Waterworks

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. There were no budget amendments for the Waterworks during the year ended June 30, 2012.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted.

Supplementary Information

Perry Municipal Waterworks

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Enterprise Fund Accounts

As of and for the year ended June 30, 2012

	Waterworks	Customer Deposit	State Revolving	2004 Revenue Note	2011 Revenue Refunding Bond	Total
Operating receipts:						
Charges for service:						
Sale of water	\$ 1,457,307	-	-	-	-	1,457,307
Other charges for service	47,399	-	-	-	-	47,399
Installations and connections	100	-	-	-	-	100
	<u>1,504,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,504,806</u>
Miscellaneous:						
Sales tax collected	95,655	-	-	-	-	95,655
Customer deposits	-	36,680	-	-	-	36,680
Miscellaneous	14,894	-	-	-	-	14,894
	<u>110,549</u>	<u>36,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,229</u>
Total operating receipts	<u>1,615,355</u>	<u>36,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,035</u>
Operating disbursements:						
Business type activities:						
Plant operation and maintenance:						
Salaries	240,086	-	-	-	-	240,086
Employee benefits	113,552	-	-	-	-	113,552
Contractual services	108,659	-	-	-	-	108,659
Commodities	128,631	-	-	-	-	128,631
	<u>590,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>590,928</u>
Distribution operation and maintenance:						
Salaries	101,112	-	-	-	-	101,112
Employee benefits	50,775	-	-	-	-	50,775
Contractual services	47,039	-	-	-	-	47,039
Commodities	8,437	-	-	-	-	8,437
	<u>207,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,363</u>
Administration:						
Salaries	145,734	-	-	-	-	145,734
Employee benefits	57,523	-	-	-	-	57,523
Contractual services	45,930	27,735	-	-	-	73,665
Sales tax remitted	90,318	-	-	-	-	90,318
Commodities	26,301	-	-	-	-	26,301
	<u>365,806</u>	<u>27,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>393,541</u>
Total operating disbursements	<u>1,164,097</u>	<u>27,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,191,832</u>

Perry Municipal Waterworks

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets
Enterprise Fund Accounts

As of and for the year ended June 30, 2012

	Waterworks	Customer Deposit	State Revolving	2004 Revenue Note	2011 Revenue Refunding Bond	Total
Excess of operating receipts over operating disbursements	451,258	8,945	-	-	-	460,203
Non-operating receipts (disbursements):						
Interest on investments	4,850	-	15	16	160	5,041
Rental income	18,216	-	-	-	-	18,216
Sewer and garbage fees collected for City	257,370	-	-	-	-	257,370
Sewer and garbage fees remitted to City	(257,370)	-	-	-	-	(257,370)
Revenue bond proceeds, net of \$8,000 discount	-	-	-	-	632,000	632,000
Debt service:						
Principal redeemed	-	-	-	-	(80,000)	(80,000)
Interest paid	-	-	(1,373)	(2,948)	(9,703)	(14,024)
Service fees	-	-	-	(275)	(775)	(1,050)
Capital outlay	(165,456)	-	-	-	-	(165,456)
Payments to refund revenue bonds and notes	-	-	(289,000)	(430,000)	-	(719,000)
Total non-operating receipts (disbursements)	(142,390)	-	(290,358)	(433,207)	541,682	(324,273)
Excess (deficiency) of receipts over (under) disbursements	308,868	8,945	(290,358)	(433,207)	541,682	135,930
Operating transfers in (out):						
Enterprise:						
Waterworks	-	240	3,000	2,500	18,506	24,246
Consumer Deposit	(240)	-	-	-	-	(240)
State Revolving	(3,000)	-	-	-	(234,545)	(237,545)
2004 Revenue Note	(2,500)	-	-	-	(195,212)	(197,712)
2011 Revenue Refunding Bond	(18,506)	-	234,545	195,212	-	411,251
Total operating transfers in (out)	(24,246)	240	237,545	197,712	(411,251)	-
Change in cash basis net assets	284,622	9,185	(52,813)	(235,495)	130,431	135,930
Cash basis net assets beginning of year	226,392	74,450	52,813	235,495	-	589,150
Cash basis net assets end of year	\$ 511,014	83,635	-	-	130,431	725,080

See accompanying independent auditor's report.

Perry Municipal Waterworks

Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds:			
Water	June 1, 1999	3.00%	\$ 600,000
Water refunding	July 26, 2011	1.10-2.60	640,000
Total			
Revenue notes:			
Water	Sept 1, 2004	3.80-4.70%	\$ 700,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
289,000	-	289,000	-	1,373
-	640,000	80,000	560,000	9,703
<u>\$ 289,000</u>	<u>640,000</u>	<u>369,000</u>	<u>560,000</u>	<u>11,076</u>
<u>430,000</u>	<u>-</u>	<u>430,000</u>	<u>-</u>	<u>2,948</u>

Perry Municipal Waterworks



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Perry Municipal Waterworks:

We have audited the financial statement of the Perry Municipal Waterworks, Perry, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Perry Municipal Waterworks is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Waterworks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

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 a material misstatement of the Waterworks' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Perry Municipal Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted 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, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Perry Municipal Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Waterworks' responses, we did not audit the Perry Municipal Waterworks' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Perry Municipal Waterworks and other parties to whom the Perry Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Perry Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 6, 2012

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

- (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. Water utility billings, collections, deposits, posting to customer accounts and the cash receipts journal and reconciliation of billings to collections and delinquent accounts are all done by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

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

Response – The Perry Waterworks will, to the best of our abilities, continue to enforce a schedule for a separation of duties. Utility payments are received by the water clerk, deputy water clerk and/or a water operator. The majority of the posting of payments and bank deposits is completed by the deputy water clerk. The reconciliation of accounts, which includes the posting of journal entries, are recorded by the water clerk. These duties will be alternated between the office clerks at least twice in a fiscal year. All payroll and claim disbursements and corresponding reports rotate between the water clerk and deputy water clerk. All claims and the bank statements and ledger will be reviewed by a Board member.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Perry includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2012, exceeded the amount budgeted for the Waterworks. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The Waterworks office server which houses the utility software crashed on October 31, 2011. The Waterworks Board decided to upgrade the entire hardware and software system at the November 2011 regular meeting. This large expenditure was not a planned project for the fiscal year budget. We will continue to review the year-to-date budget and, if needed, prepare an amendment to the budget as required by Chapter 384.18 of the Iowa Code.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Waterworks’ money for travel expenses of spouses of Waterworks’ officials or employees were noted.
- (4) Business Transactions – No business transactions between the Waterworks and Waterworks officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Waterworks’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The interest rate on a time certificate of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee. Public fund time certificates of deposit, when renewed, shall be renewed at a rate of interest which conforms with current rates for public funds on the date of renewal.

Recommendation - The Waterworks should seek reimbursement of the additional interest due on this certificate of deposit. In addition, the Waterworks should be aware of the current allowable rates to ensure at least the minimum allowable rate is received for all investments.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2012

Response – The water clerk is working with the financial branch.

Conclusion – Response accepted.

- (8) Revenue Bonds – No instances of non-compliance with the revenue bond requirements for the year ended June 30, 2012 were noted.

Perry Municipal Waterworks

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Jessica N. Meierotto, Staff Auditor
Joshua W. Ostrander, Assistant Auditor

A handwritten signature in black ink, appearing to read "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State