



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 21, 2008

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Dallas Center Water Department, Dallas Center, Iowa.

The Water Department's receipts totaled \$329,974 for the year ended June 30, 2008. The receipts included \$279,994 from charges for service, \$33,598 from note proceeds, \$2,626 of miscellaneous fees and \$13,756 from interest on investments.

Disbursements for the year totaled \$248,802, and included \$188,824 for operations and \$59,978 for principal redeemed and interest paid.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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DALLAS CENTER WATER DEPARTMENT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Dallas Center Water Department

Officials

| <u>Name</u> | <u>Title</u> | Term <u>Expires</u> |
|------------------------------|------------------------------|------------------------|
| (Before January 2008) | | |
| Mitch Hambleton | Mayor | Jan 2008 |
| Kim Cross | Mayor Pro tem/Council Member | Jan 2010 |
| William Ellerman | Member | Jan 2008 |
| Terry Gibson | Member | Jan 2008 |
| Gary Stevens | Member | Jan 2008 |
| Dan Willrich | Member | Jan 2010 |

(After January 2008)

| | | |
|------------------|------------------------------|------------|
| Mitch Hambleton | Mayor | Jan 2012 |
| Kim Cross | Mayor Pro tem/Council Member | Jan 2010 |
| Dan Willrich | Member | Jan 2010 |
| William Ellerman | Member | Jan 2012 |
| Alex MacConnell | Member | Jan 2012 |
| Gary Stevens | Member | Jan 2012 |
| Cindy Risselman | City Clerk | Indefinite |
| Ralph R. Brown | City Attorney | Indefinite |

Dallas Center Water Department



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statement of the Dallas Center Water Department, Dallas Center, Iowa, as of and for the year ended June 30, 2008. This financial statement is the responsibility of the City of Dallas Center's officials. Our responsibility is to express an opinion on the 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. As discussed in Note 1, the financial statement of the Dallas Center Water Department is intended to present only the financial position and results of the transactions of that portion of the City of Dallas Center that is attributable to the transactions of the Dallas Center Water Department.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Dallas Center Water Department as of June 30, 2008, 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.

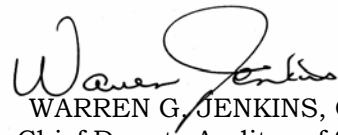
In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2008 on our consideration of the Dallas Center Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other 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.

The Dallas Center Water Department has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. 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 has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 8, 2008

Financial Statement

Dallas Center Water Department

Dallas Center Water Department
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets
As of and for the year ended June 30, 2008

| | |
|---|-------------------|
| Operating receipts: | |
| Charges for service | \$ 279,994 |
| Miscellaneous | 2,626 |
| Total operating receipts | <u>282,620</u> |
| Operating disbursements: | |
| Business type activities: | |
| Plant operation and maintenance | 90,684 |
| Distribution operation and maintenance | 32,510 |
| Administration | 36,232 |
| Capital outlay | 29,398 |
| Total operating disbursements | <u>188,824</u> |
| Excess of operating receipts over operating disbursements | <u>93,796</u> |
| Non-operating receipts (disbursements): | |
| Interest on investments | 13,756 |
| Note proceeds | 33,598 |
| Debt service: | |
| Principal redeemed | (45,000) |
| Interest paid | (14,978) |
| Net non-operating receipts (disbursements) | <u>(12,624)</u> |
| Net change in cash basis net assets | 81,172 |
| Cash basis net assets beginning of year | <u>271,479</u> |
| Cash basis net assets end of year | <u>\$ 352,651</u> |
| Cash Basis Net Assets | |
| Reserved for debt service | \$ 69,747 |
| Unreserved | <u>282,904</u> |
| Total cash basis net assets | <u>\$ 352,651</u> |

See notes to financial statement.

Dallas Center Water Department

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Dallas Center Water Department is a department of the City of Dallas Center, Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis.

B. Basis of Presentation

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

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Dallas Center Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department 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 fund in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The Water Department's deposits in banks at June 30, 2008 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 Water Department 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 City Council; 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 Water Department had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

Annual debt service requirements to maturity for the water revenue capital loan notes are as follows:

| Years Ending June 30, | Water Revenue Capital Loan Notes | | |
|-----------------------------|-------------------------------------|----------|---------|
| | Principal | Interest | Total |
| 2009 | \$ 45,000 | 12,623 | 57,623 |
| 2010 | 45,000 | 10,253 | 55,253 |
| 2011 | 45,000 | 7,860 | 52,860 |
| 2012 | 40,000 | 5,452 | 45,452 |
| 2013 | 40,000 | 3,393 | 43,393 |
| 2014 | 25,000 | 1,313 | 26,313 |
| Total | \$ 240,000 | 40,893 | 280,893 |

Revenue Capital Loan Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$175,000 and \$350,000 in water revenue capital loan notes issued in April 1996 and February 1999, respectively. Proceeds from the notes provided financing for water main improvements and extensions. The notes are payable solely from water customer net receipts and are payable through 2014. Annual principal and interest payments on the notes are expected to require less than 65 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$280,893. For the current year, principal and interest paid and total customer net receipts were \$59,978 and \$93,796, respectively.

The resolutions providing for the issuance of the revenue capital loan notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue note sinking accounts within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue note sinking accounts shall be made to a separate water note reserve account until \$17,500 and \$35,000, respectively, is accumulated in the note reserve accounts. At June 30, 2008, the balances in the water note reserve accounts total \$59,039
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.

The City has not made transfers on a monthly basis to the revenue note sinking accounts as required by the note resolutions.

(4) Interim Loan and Disbursement Agreement

On August 2, 2007, the City entered into an interest free interim loan and disbursement agreement with the Iowa Finance Authority for \$40,000 to be used for engineering, planning and design costs for a new water tower. The loan is payable from the anticipated issuance of capital loan notes or other City funds. As of June 30, 2008, the Water Department has drawn loan funds of \$33,598.

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by State statute. The Water Department's contribution to IPERS for the year ended June 30, 2008 was \$2,343, equal to the required contribution for the year.

(6) Compensated Absences

Water Department employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department's approximate liability for earned vacation and comp time payable to employees at June 30, 2008 is as follows:

| Type of Benefit | Amount |
|-----------------|-----------------|
| Vacation | \$ 2,000 |
| Comp time | <u>1,000</u> |
| Total | <u>\$ 3,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2008.

(7) Risk Management

The Water Department 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.

(8) Construction Contracts/Commitments

On May 13, 2008, the City entered into a construction contract totaling \$838,000 for a new water tower. The project will be financed through the issuance of \$900,000 of water revenue capital loan notes.

In June 2008, the City authorized the issuance of \$900,000 of water revenue capital loan notes with interest at 3.00% to finance the water tower project.

(9) Subsequent Event

In July 2008, the City approved the redemption of the 1996 water revenue capital loan notes which had an outstanding principal balance of \$45,000 at June 30, 2008.

Required Supplementary Information

Dallas Center Water Department

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

Year ended June 30, 2008

| | Actual | Budgeted Amounts Original/Final | Final to Actual Variance |
|--|-------------------|------------------------------------|--------------------------------|
| Receipts: | | | |
| Charges for service | \$ 279,994 | 246,400 | 33,594 |
| Miscellaneous | 2,626 | - | 2,626 |
| Total receipts | 282,620 | 246,400 | 36,220 |
| Disbursements: | | | |
| Business type activities | 188,824 | 894,808 | 705,984 |
| Excess of receipts over disbursements | 93,796 | (648,408) | 742,204 |
| Other financing uses, net | (12,624) | 650,000 | (662,624) |
| Change in cash basis net assets | 81,172 | 1,592 | 79,580 |
| Cash basis net assets beginning of year | 271,479 | 270,472 | 1,007 |
| Cash basis net assets end of year | \$ 352,651 | 272,064 | 80,587 |

See accompanying independent auditor's report.

Dallas Center Water Department
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

The Dallas Center Water Department 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 Water Department, 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 Water Department's disbursements are budgeted in the business type activities function. The Water Department's budget is reflected in the original and final budgeted amount. The Water Department's budget was not amended during the year.

During the year ended June 30, 2008, disbursements did not exceed the amount budgeted.

Other Supplementary Information

Dallas Center Water Department

Schedule of Indebtedness

Year ended June 30, 2008

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|---------------|----------------|--------------------------|
| Water revenue capital loan notes: | | | |
| Water improvements | Apr 1, 1996 | 4.50-5.85% | \$ 175,000 |
| Water improvements | Feb 1, 1999 | 5.00-5.25 | 350,000 |
| Total | | | |
| Interim loan and disbursement agreement: | | | |
| Water tower engineering, planning and design | Aug 2, 2007 | 0% | \$ 40,000 |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 60,000 | - | 15,000 | 45,000 | 3,480 |
| 225,000 | - | 30,000 | 195,000 | 11,498 |
| \$ 285,000 | - | 45,000 | 240,000 | 14,978 |
| | | | | |
| | - | 33,598 | - | 33,598 |
| | | | | |

Schedule 2

Dallas Center Water Department

Note Maturities

Year ended June 30, 2008

| Year Ending June 30, | Water Revenue Capital Loan Notes | | | | | |
|----------------------------|----------------------------------|------------------|--------------------|-------------------|----------------|--|
| | Water Improvements | | Water Improvements | | Total | |
| | Interest | Amount | Interest | Amount | | |
| 2009 | 5.80 | \$ 15,000 | 5.01 | \$ 30,000 | 45,000 | |
| 2010 | 5.85 | 15,000 | 5.05 | 30,000 | 45,000 | |
| 2011 | 5.85 | 15,000 | 5.10 | 30,000 | 45,000 | |
| 2012 | | - | 5.15 | 40,000 | 40,000 | |
| 2013 | | - | 5.20 | 40,000 | 40,000 | |
| 2014 | | - | 5.25 | 25,000 | 25,000 | |
| Total | | <u>\$ 45,000</u> | | <u>\$ 195,000</u> | <u>240,000</u> | |

See accompanying independent auditor's report.



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David A. Vaudt, CPA
Auditor of State

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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
Dallas Center Water Department:

We have audited the accompanying financial statement of the Dallas Center Water Department, Dallas Center, Iowa, as of and for the year ended June 30, 2008, and have issued our report thereon dated August 8, 2008. 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

In planning and performing our audit, we considered the Dallas Center Water Department's 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 our opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Dallas Center Water Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Water Department's financial statement that is more than inconsequential will not be prevented or detected by the Water Department's internal control. We consider the deficiency in internal control described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Dallas Center Water Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dallas Center Water Department's 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 an immaterial instance of non-compliance or other matters that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Water Department's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Water Department. 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 Dallas Center Water Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Water Department's responses, we did not audit the Water Department's 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 Dallas Center Water Department, the City of Dallas Center and other parties to whom the Dallas Center Water Department 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 City of Dallas Center 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

August 8, 2008

Dallas Center Water Department

Schedule of Findings

Year ended June 30, 2008

Finding Related to the Financial Statement:

SIGNIFICANT DEFICIENCY:

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. One person has control over collecting, depositing, journalizing and posting receipts.

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

Response – The City will review its operating procedures to obtain the maximum internal control possible.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Dallas Center Water Department

Schedule of Findings

Year ended June 30, 2008

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Dallas Center includes amounts for the Dallas Center Water Department. Disbursements during the year ended June 30, 2008 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- (4) Business Transactions – No business transactions between the Water Department and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Water Department officials and employees is carried by the City of Dallas Center in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Water Revenue Capital Loan Notes – The City did not transfer funds to the water sinking and reserve accounts monthly as required by the water revenue note resolutions.

Recommendation – The City should transfer funds monthly as required by the water revenue note resolutions.

Response – The City has begun doing monthly transfers to the required funds.

Conclusion – Response accepted.

Dallas Center Water Department

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Michelle B. Meyer, CPA, Manager



Andrew E. Nielsen, CPA
Deputy Auditor of State