

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
KNOXVILLE, IOWA

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

June 30, 2013

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CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS

WATER WORKS OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Merle Vickroy	Trustee - Chairman	April, 2015
Dwight Sommer	Trustee	April, 2017
Richard Randol	Trustee	April, 2019
Brian Bailey	General Manager	December 31, 2013
Michael Lane	Attorney	Indefinite

DOUGLAS T. HUNT, CPA  
DONALD D. KAIN  
CHUCK C. CONVERSE, CPA  
RUSSELL S. TERPSTRA, CPA  
MICHAEL G. STANLEY, CPA  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
City of Knoxville Municipal Water Works  
Knoxville, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Water Works, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water Works' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Water Works as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville Municipal Water Works' basic financial statements.

The other information, budgetary comparison information on pages 18 through 19 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The City of Knoxville Municipal Water Works has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2013 on our consideration of the City of Knoxville Municipal Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Knoxville Municipal Water Works' internal control over financial reporting and compliance.

Oskaloosa, Iowa  
December 9, 2013

*Hunt & Associates, P.C.*

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
As of and for the year ended June 30, 2013

	<u>Disbursements</u>	<u>Program Receipts Charges for Services</u>	<u>Net Receipts</u>
Functions/Programs:			
Business-Type Activities:			
Water	\$ <u>1,575,671</u>	\$ <u>1,759,456</u>	<u>183,785</u>
General receipts:			
Rents collected			17,748
Miscellaneous			<u>50,130</u>
Total general receipts			<u>67,878</u>
Change in cash basis net position			251,663
Cash basis net position beginning of year			<u>1,439,361</u>
Cash basis net position end of year			\$ <u>1,691,024</u>
Cash basis net position unrestricted			\$ <u>1,691,024</u>

See notes to financial statements.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BALANCES PROPRIETARY FUND  
As of and for the year ended June 30, 2013

	Enterprise
	Water
	Operating
	Fund
Operating receipts:	
Use of money and property:	
Rent	\$ <u>17,748</u>
Charges for services:	
Sale of water	1,640,715
Sewer collection fee	50,000
Penalty fees	6,667
Customer service	781
Sales tax collected	<u>61,293</u>
	<u>1,759,456</u>
Miscellaneous:	
Utility credit	11,960
Reimbursements	12,204
NSF check charges	1,706
Merchandise sales	8,195
Other	3,500
Disconnect notices and fees	8,095
Insurance premium refunds	<u>4,470</u>
	<u>50,130</u>
Total operating receipts	<u>1,827,334</u>

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BALANCES PROPRIETARY FUND  
As of and for the year ended June 30, 2013

	Enterprise
	Water
	Operating
	Fund
Operating disbursements:	
Business-Type Activities:	
Administration:	
Salaries	\$ 72,331
Payroll taxes and IPERS	11,317
Employee insurance	74,842
Training and meetings	422
Analysis fees	1,694
Insurance	57,760
Audit fees	5,600
Publications	1,001
Maintenance contract	21,584
Memberships and fees	9,233
Engineering, legal, and consulting	3,643
Board annual fees	750
	260,177
Accounting and Collections:	
Salaries	75,946
Payroll taxes and IPERS	11,270
Office supplies	12,398
Utilities and telephone	3,100
Postage	21,109
Janitorial service	3,044
Sales tax remitted	61,563
Banking and collection fees	1,998
Miscellaneous	9,224
	199,652

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BALANCES PROPRIETARY FUND  
As of and for the year ended June 30, 2013

	Enterprise Water Operating Fund
Operating disbursements (continued):	
Business-Type Activities (continued):	
Plant and operation distribution:	
Salaries	\$ 302,863
Payroll taxes and IPERS	46,345
Electricity and gas	92,509
Chemicals	53,769
Gasoline and fuel	14,782
Maintenance and supplies	38,984
Sand, rock, and gravel	43,329
Distribution maintenance	105,985
	698,566
Other:	
Capital distribution projects	317,873
Capital project maintenance	46,296
Capital outlay	53,107
	417,276
Total operating disbursements	1,575,671
Excess of operating receipts over operating disbursements	251,663
Cash balance beginning of year	1,439,361
Cash balance end of year	\$ 1,691,024
Cash basis fund balance unrestricted	\$ 1,691,024

See notes to financial statements.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BALANCES AGENCY FUNDS  
Year Ended June 30, 2013

	<u>Customer Deposits</u>	<u>Sanitary Sewer</u>	<u>Total</u>
Receipts:			
Charges for services:			
Sanitary sewer receipts	\$ -	\$ 2,287,763	\$ 2,287,763
Miscellaneous:			
Customer deposits	11,700	-	11,700
Total receipts	<u>11,700</u>	<u>2,287,763</u>	<u>2,299,463</u>
Disbursements:			
Agency Remittances:			
Remittances to City	-	2,287,763	2,287,763
Customer deposits reimbursed	10,605	-	10,605
Total disbursements	<u>10,605</u>	<u>2,287,763</u>	<u>2,298,368</u>
Excess of receipts over disbursements	1,095	-	1,095
Balance beginning of year	<u>42,216</u>	-	<u>42,216</u>
Balance end of year	<u>\$ 43,311</u>	<u>\$ -</u>	<u>\$ 43,311</u>

See notes to financial statements.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 1. Summary of Significant Accounting Policies

The City of Knoxville Municipal Water Works is an independent department and a component unit of the City of Knoxville. The Water Works operates under an appointed Board of Trustees. The Water Works provides water service to the residents of Knoxville, Iowa, located in Marion County.

A. Reporting Entity

For financial reporting purposes, the Municipal Water Works of the City of Knoxville, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Works to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Works. The Water Works has no component units which meet the Governmental Accounting Standards Board criteria. These statements do not include any other City of Knoxville funds or transactions.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government, the Water Works, and any component units. For the most part, the effect of interfund activity has been removed from this financial statement.

The Cash Basis Statement of Activities and Net Position presents the Water Department's nonfiduciary net position. Net position is reported in one category:

Unrestricted net position consists of cash balances not meeting the definition of any other specific category. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identified with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead as general receipts.

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

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 1. Summary of Significant Accounting Policies

B. Basis of Presentation (continued)

The Water Works reports the following major proprietary fund:

The Enterprise, Water Operating Fund accounts for the operation and maintenance of the City's water system.

Additionally, the Water Works reports the following fund type:

Fiduciary Funds:

Agency Funds are utilized to account for monies and properties received and held by the Water Works in a trustee capacity as an agent for individuals, private organizations, certain jointly governed organizations, other governmental entities and/or other funds.

C. Basis of Accounting

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The Water Works' deposits at June 30, 2013 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 2. Cash and Pooled Investments (continued)

The Water Works investments at June 30, 2013 are as follows:

Type	Amortized Cost
Iowa Public Agency Investment Trust	\$ 3,818

The Water Works' investments in the Iowa Public Agency Investment Trust are not subject to risk categorization and are valued at amortized cost pursuant of Rule 2a-7 under the Investment Company Act of 1940.

Note 3. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual salary and the Water Works is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Water Works's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$34,363, \$35,778, and, \$30,616, respectively, equal to the required contributions for each year.

Note 4. Other Postemployment Benefits (OPEB)

Plan Description – The Water Works participates in a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. The Water Works has 7 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark through the City of Knoxville. Retirees under age 65 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 City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$443 for single coverage and \$1,075 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the Water Works contributed \$59,908, retirees contributed \$14,269, and active plan members eligible for benefits contributed \$7,862 to the plan.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 5. Compensated Absences

Water Works's employees accumulate vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the Water Works until used or paid.

Water Works's employees accumulate sick leave hours for subsequent use. A percentage of the value of sick leave accrued at retirement will be applied to payment of health insurance premiums after retirement. The applicable amounts are 75% for employees hired prior to July 1, 1980 and 50% for employees hired after July 1, 1980.

Sick leave benefits for three retired employees are being used to pay the monthly health insurance premiums until such time as the balance has been used. The premiums paid for the year ended June 30, 2013 were \$14,269. The balance at June 30, 2013 is \$78,748.

The Water Work's maximum liability for unrecognized accrued employee benefits has been computed based on rates of pay as of June 30, 2013 and is as follows:

Type of Benefits	Amount
Vacation	\$ 36,136
Sick Leave	<u>94,443</u>
Total	<u><u>\$ 130,579</u></u>

Note 6. Risk Management

The Water Works is a member in 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 679 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, 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 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 6. Risk Management (continued)

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 Water Works's 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 Water Works's contribution to the Pool for the year ended June 30, 2013 was \$47,793.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, 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 \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

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 that 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. The Water Works does not report 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, 2013, no liability has been recorded in the Water Works' financial statements. As of June 30, 2013, 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 casualty claims and claim 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Water Works also carries insurance purchased from Iowa Municipalities Workers Compensation Association (IMWCA) for coverage associated with workers compensation in the amount of \$1,000,000. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from this risk have not exceeded insurance coverage in any of the past three fiscal years.

The Water Works purchased coverage from another insurer for employee blanket bond in the amount of \$25,000.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 7. Sanitary Sewer Receipts

The Water Works assesses and collects sanitary sewer charges for the City of Knoxville, Iowa. The receipts from collections from customers and remittances to the City of Knoxville are accounted for in the Agency – Sanitary Sewer Receipts Fund.

Note 8. Operating Lease

The Knoxville Water Works is leasing equipment from Pitney Bowes under an operating lease which expires in the fiscal year ending June 30, 2016. The Water Works makes quarterly rental payments of \$1,085. The rental payments disbursed during the year ended June 30, 2013 totaled \$14,439.

Details of the operating lease are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2014	\$ 4,339
2015	4,339
2016	<u>4,339</u>
	<u>\$ 13,017</u>

Note 9. Construction and Other Commitments

The Water Works has contracted to regulate emissions on a generator. The total contract is \$42,763 of which \$10,000 has been paid.

The Water Works has also contracted engineering services for downtown streetscape water main construction in the amount of \$26,181 of which \$15,145 has been paid.

The Water Works has also contracted engineering services for Pleasant Street Water Main Reconstruction Project not to exceed \$12,800 of which \$9,630 has been paid.

The Water Works has approved an agreement with the City of Knoxville on October 17, 2011 to support the economic development activities in and for the City of Knoxville, Iowa is in the best interest of both entities. The Water Works will contribute \$25,000 annually to an economic development fund if the City of Knoxville creates a development commission: The agreement shall remain in full force for a period of five years, however, either entity may terminate this agreement by giving the other entity one years notice of their intention to terminate said agreement. As of June 30, 2013 nothing was contributed by the Water Works. The City of Knoxville did not provide a development commission.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 10. Subsequent Event

The Water Works has contracted for McKimber Street Water main improvements. The total contract is \$95,286.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES  
BUDGET AND ACTUAL (CASH BASIS) – PROPRIETARY FUNDS  
Other Information  
Year Ended June 30, 2013

	<u>Actual</u>	<u>Reclassification and Adjustments</u>	<u>Net</u>	<u>Original and Final Budgeted Amounts</u>	<u>Budget to Net Variance</u>
Receipts:					
Water:					
Use of money and property	\$ 17,748	\$ -	\$ 17,748	\$ 16,200	\$ 1,548
Charges for services	1,759,456	-	1,759,456	1,567,000	192,456
Miscellaneous	61,830	(11,700)	50,130	49,000	1,130
Total receipts	<u>1,839,034</u>	<u>(11,700)</u>	<u>1,827,334</u>	<u>1,632,200</u>	<u>195,134</u>
Disbursements:					
Business type activities:					
Water	<u>1,586,276</u>	<u>(10,605)</u>	<u>1,575,671</u>	<u>1,771,000</u>	<u>195,329</u>
Excess (deficiency) of receipts over (under) disbursements	252,758	(1,095)	251,663	(138,800)	<u>\$ 390,463</u>
Balance beginning of year	<u>1,481,577</u>	<u>(42,216)</u>	<u>1,439,361</u>	<u>977,611</u>	
Balance end of year	<u>\$ 1,734,335</u>	<u>\$ (43,311)</u>	<u>\$ 1,691,024</u>	<u>\$ 838,811</u>	

See accompanying independent auditor's report.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING  
June 30, 2013

The budgetary comparison is presented in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgeting perspective differences resulting from not being able to present comparisons for the Enterprise Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees:  
City of Knoxville Municipal Water Works  
Knoxville, Iowa

We have audited (in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States) the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Municipal Water Works, a component unit of the City of Knoxville as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Water Works' basic financial statements, and have issued our report thereon dated December 9, 2013. Our report expressed unmodified opinions on the financial statements which were 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 statements, we considered the Water Works' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipal Water Works' internal control.

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

A deficiency in internal control exists when the design or operation of 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 City of Knoxville Municipal Water Works' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Knoxville Municipal Water Works' financial statements are 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 Governmental Auditing Standards.

Comments involving statutory and other legal matters about the City of Knoxville Municipal Water Works' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. 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.

Water Works' Responses to Findings

City of Knoxville Municipal Water Works' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Knoxville Municipal Water Works' responses were not subjected to the auditing procedures applied on the audit of the financial statements 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's 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 City of Knoxville Municipal Water Works 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.

Oskaloosa, Iowa  
December 9, 2013

*Hunt & Associates, P.C.*

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

I-A-13 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. With only two individuals in the office, it is necessary on numerous occasions for the same individual to prepare water billings, receive cash, prepare the deposits, post collections to customer accounts, and prepare payroll and disbursements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we believe the Board should be aware of the situation and, as conditions change, review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the situation, however with the current staffing we do not believe there is a practical way of improving the segregation of duties.

Conclusion - Response accepted.

I-B-13 Authorized Check Signers – A plant employee is authorized to sign checks. The individual has little knowledge of the business operation and no responsibility for any financial aspect of the Water Works.

Recommendation – Authorized check signers should be individuals that have some financial responsibility and knowledge of the business operation to be able to question whether a disbursement should be authorized.

Response – We are aware of the situation and have already eliminated this individual as an authorized check signer.

Conclusion - Response accepted.

CITY OF KNOXVILLE  
MUNICIPAL WATER WORKS  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2013

Part II: Other Findings Related to Required Statutory Reporting:

- 1) Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted in the business type activities function.
- 2) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 3) Travel Expense - No disbursements of Water Works's money for travel expenses of spouses of Water Works's officials or employees were noted.
- 4) Business Transactions – No business transactions between Water Works and Water Works's officials or employees are noted.
- 5) Bond Coverage - Surety bond coverage of Water Works's 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 Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 7) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provision of Chapter 12B and 12C of the Code of Iowa and the Water Works's investment policy.