

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk**

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplementary Information
Independent Auditor's Reports on Compliance and Internal Control
Schedule of Findings and Questioned Costs**

June 30, 2014

C o n t e n t s

	Page
Board of Trustees	1
Independent Auditor's Report	2 - 4
Management's Discussion and Analysis	5 - 10
Financial Statements	
Statement of Net Position - Proprietary Fund	11
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	12
Statement of Cash Flows - Proprietary Fund	13
Notes to Financial Statements	14 - 22
Required Supplementary Information	
Comparison of Cash Receipts and Disbursements - Actual to Budget	23
Notes to Required Supplementary Information - Actual to Budget	24
Supplementary Information	
Schedule of Changes in Assets Restricted for Landfill, Sewer and Garbage Charges	25
Schedule of Changes in Assets Restricted for Water Revenue Capital Loan Notes Debt Service	26
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 <i>Government Auditing Standards</i>	27 - 28
Schedule of Findings and Questioned Costs	29 - 32

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Board of Trustees
June 30, 2014**

<u>Trustee</u>	<u>Title</u>	<u>Term Expires</u>
Edward Johnstone	Trustee, Chairman	November 1, 2017
Mike Hausch	Trustee, Vice Chairman	November 1, 2017
Bruce Brandt	Trustee	November 1, 2019
Dave Bogner	Trustee	November 1, 2015
Bill Cole	Manager	
Shari Dunagan	Office Manager	



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

Independent Auditor's Report

Board of Trustees
Keokuk Municipal Waterworks
A Component Unit of the City of Keokuk
Keokuk, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund of Keokuk Municipal Waterworks (Waterworks), a component unit of the City of Keokuk, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note 1, the Waterworks did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the OPEB net liability obligation as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The amount by which this departure would affect liabilities, net position and operating expenses has not been determined.

Qualified Opinion

In our opinion, except for the omission of the information described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Waterworks as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 23 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterworks' basic financial statements. The schedule of changes in assets restricted for landfill, sewer and garbage charges and the schedule of changes in assets restricted for water revenue capital loan notes debt service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of changes in assets restricted for landfill, sewer and garbage charges and the schedule of changes in assets restricted for water revenue capital loan notes debt service are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of changes in assets restricted for landfill, sewer and garbage charges and the schedule of changes in assets restricted for water revenue capital loan notes debt service are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Waterworks' internal control over financial reporting and compliance.

CPA Associates PC

November 20, 2014

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Management's Discussion and Analysis**

The following Management's Discussion and Analysis (MD&A) of Keokuk Municipal Waterworks' activities and financial performance provides the reader with an introduction and overview to the financial statements of Keokuk Municipal Waterworks (Waterworks) for the fiscal year ended June 30, 2014. The information contained in this MD&A should be considered in conjunction with the Waterworks' basic financial statements.

Following this MD&A are the basic financial statements of the Waterworks together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

Financial Operations Highlights

As a result of this year's operations, assets exceeded liabilities by \$27.1 million (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$25.7 million. The net position increased by \$1,349,689 or 5.2%.

The following comprises total net position:

- Net position invested in capital assets (e.g., main extensions, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets is \$23,622,185. This balance represents resources allocated to capital assets. These capital assets, less accumulated depreciation, are shown at depreciated cost of \$36,067,206.
- Restricted net position of \$1,997,513 represents resources that are subject to external restrictions such as grantors, laws, debt covenants or regulations.
- Unrestricted net position of \$1,464,926 represents resources that can be used at the discretion of management and the Board of Trustees.

During the year, revenues increased \$283,200, or 3.89%, while operating expenses increased \$503,400, or 8.50%. The increase in revenues is due increased water usage by industrial and governmental customers.

Net nonoperating expenses decreased \$140,600, or 34.16%, and are primarily attributable to the decrease in interest expense.

The Waterworks also recognized capital contributions of \$480,000 in the current year related to the State Revolving Loan debt forgiveness received for the chlorine generation system project.

Using This Annual Report

The Waterworks is governed by a Board of Trustees, appointed by the Mayor and approved by the City Council. The Waterworks is organized as an Enterprise Fund and is a component unit of the City of Keokuk, Iowa. This discussion and analysis is intended to serve as an introduction to the Waterworks' basic financial statements. The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of Keokuk Municipal Waterworks' financial activities.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Management's Discussion and Analysis**

Using This Annual Report (continued)

- The financial statements consist of a Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows. These provide information about the activities of the Waterworks as a whole and present an overall view of the Waterworks' finances.
- The financial statements tell how services were financed in the short term as well as what remains for future spending.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year.

Financial Position Summary

Net position may serve over time as a useful indicator of the Waterworks' financial position. The Waterworks' net position exceeded liabilities by \$27.1 million at June 30, 2014, an increase of \$1,349,689 from 2013.

A condensed summary of the Waterworks' net position at June 30, 2014 and 2013 is shown below:

	2014	2013
Assets		
Current and restricted assets	\$ 10,399,695	\$ 5,200,093
Capital assets	<u>36,067,206</u>	<u>35,972,586</u>
Total assets	<u>\$ 46,466,901</u>	<u>\$ 41,172,679</u>
Liabilities		
Current liabilities	\$ 3,467,012	\$ 3,294,365
Long-term debt	<u>15,915,265</u>	<u>12,143,379</u>
	19,382,277	15,437,744
Net Position		
Invested in capital assets, net of related debt	23,622,185	21,937,809
Restricted funds	1,997,513	1,703,417
Unrestricted	<u>1,464,926</u>	<u>2,093,709</u>
Total liabilities and net position	<u>\$ 46,466,901</u>	<u>\$ 41,172,679</u>

The largest portion of the Waterworks' net position each year represents its investment in capital assets (e.g., main extensions, buildings, improvements, and equipment), less any related indebtedness outstanding used to acquire those capital assets.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Management's Discussion and Analysis**

Summary of Operations and Changes in Net Position

	2014	2013
Net operating revenues	\$ 7,563,374	\$ 7,280,156
Net operating expenses	<u>6,422,710</u>	<u>5,919,315</u>
Net operating income	<u>1,140,664</u>	<u>1,360,841</u>
Nonoperating income and expenses:		
Interest income	56,522	62,121
Interest expense	<u>(327,497)</u>	<u>(473,713)</u>
Net nonoperating expense	<u>(270,975)</u>	<u>(411,592)</u>
Capital contributions	<u>480,000</u>	<u>1,603,000</u>
Increase in net position	<u>\$ 1,349,689</u>	<u>\$ 2,552,249</u>

Revenues

A summary of revenues for the year ended June 30, 2014, and the amount and percentage of change in relation to prior year amounts, is as follows:

	2014 Amount	% of Total	Increase (Decrease) from Prior Year	% Increase (Decrease)
Operating				
Water sales	\$ 7,425,743	91.68 %	\$ 258,041	3.60 %
Miscellaneous charges	80,133	0.99	24,060	42.91 %
Service charges and penalties	<u>57,498</u>	<u>0.71</u>	<u>1,117</u>	1.98 %
Total operating	7,563,374	93.38	283,218	3.89 %
Nonoperating income				
Interest income	56,522	0.70	(5,599)	(9.01)%
Capital contributions -				
State Revolving Loan	<u>480,000</u>	<u>5.92</u>	<u>(1,123,000)</u>	(70.06)%
Total revenues	<u>\$ 8,099,896</u>	<u>100.00 %</u>	<u>\$ (845,381)</u>	(9.45)%

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Management's Discussion and Analysis**

Expenses

A summary of expenses for the year ended June 30, 2014, and the amount and percentage of change in relation to prior year amounts, is as follows:

	2014	% of	Increase	% Increase
	Amount	Total	(Decrease)	(Decrease)
			from Prior	
			Year	
Operating				
Operating expenses	\$ 4,967,245	73.59 %	\$ 428,769	9.45 %
Depreciation	<u>1,455,465</u>	<u>21.56</u>	<u>74,626</u>	5.40 %
Total operating	6,422,710	95.15	503,395	8.50 %
Nonoperating expense				
Interest expense	<u>327,497</u>	<u>4.85</u>	<u>(146,216)</u>	(30.87)%
Total expenses	<u>\$ 6,750,207</u>	<u>100.00 %</u>	<u>\$ 357,179</u>	5.59 %

The increase in expenses during the fiscal year is primarily attributable to operating expenses.

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the years ended June 30, 2014 and 2013. Cash equivalents are considered to be cash on hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	2014	2013
Net cash provided by operating activities	\$ 2,778,186	\$ 2,758,613
Net cash provided (used) by investing activities	(2,254,194)	536,104
Net cash provided (used) by capital and related financing activities	<u>2,391,667</u>	<u>(2,186,119)</u>
Net increase in cash and cash equivalents	2,915,659	1,108,598
Cash and cash equivalents, beginning of year	<u>2,952,881</u>	<u>1,844,283</u>
Cash and cash equivalents, end of year	<u>\$ 5,868,540</u>	<u>\$ 2,952,881</u>

Financial Statements

The Waterworks' financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). The Waterworks is structured as a single enterprise fund with revenues recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. See the Notes to the Financial Statements for a summary of the Waterworks' significant accounting policies.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Management's Discussion and Analysis**

Long-term Debt

At June 30, 2014, the Waterworks had \$17,461,544 in debt outstanding. This debt is from refinancing of the 1995, 1996 and 2010 bonds in April 2013; 2008 debt of \$3.8 million for membrane filters; \$1.6 million bonds issued in connection with the chlorine generation system construction project; \$2.7 million bonds issued for additional membrane filters and \$2.3 million to payoff the 2008 debt in April 2015.

Capital Acquisitions and Construction Activities

At June 30, 2014, the Waterworks had \$55,849,400 in capital assets. Capital expenditures totaled \$1,173,028, a decrease of 40% over 2013. A summary of projects follows:

Distribution System

- Purchase of Meters

Water Treatment Plant

- Filters
- Sludge System
- Prefilters
- Chlorine Generation System
- Air compressor
- Carbon feed pump and chemical room electrical improvements

Equipment

- Filters

Office Building

- Window replacement

Transportation

- 2014 Ford F-150

Mains

- 4th Street - 15th Street Grand Avenue

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Management's Discussion and Analysis**

Economic Factors

The Waterworks continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the country and local area continues to be a concern for Waterworks' officials. Some of the realities that may potentially become challenges for the Waterworks to meet are:

- Facilities at the Waterworks require constant maintenance and upkeep.
- Water regulations continue to change; in order to meet these new standards, the Waterworks must constantly upgrade and change.
- The Waterworks' repair and replacement of mains is on-going, due to the age of the distribution system.
- Closing of businesses and declining population directly affect the income of the Waterworks, especially any change with its major customer as disclosed in the Notes to Financial Statements.

For the fiscal year ending June 30, 2014, the Waterworks has already entered into the following capital improvement projects:

Mains

- Completion of 4th Street - 15th Street Grand Avenue
- 19th and Orleans Avenue to Plank Road
- Richards Drive to Washington Street

Water Plant

- Completion of Chlorine Generation System located at the water plant at 118 North Water Street.
- Additional membrane filters

Request for Information

This financial report is designed to provide a general overview of the Waterworks' finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Manager, Keokuk Municipal Waterworks; 20 North Fourth Street; Keokuk, Iowa 52632.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Statement of Net Position - Proprietary Fund
June 30, 2014**

Assets	
Current Assets	
Cash and cash equivalents	\$ 837,138
Certificates of deposit	28,933
Accrued interest receivable	11,462
Accounts receivable	706,132
Inventories	63,355
Prepaid expenses	<u>114,299</u>
Total current assets	<u>1,761,319</u>
Restricted Assets	
Cash and cash equivalents	5,031,402
Accounts receivable	255,686
Certificates of deposit	303,105
US Treasury security	2,310,433
Guaranteed investment contracts	<u>737,750</u>
	<u>8,638,376</u>
Property, Plant and Equipment	
Property, plant and equipment, at cost	55,849,400
Less accumulated depreciation	<u>(19,782,194)</u>
	<u>36,067,206</u>
	<u>\$ 46,466,901</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 768,292
State sales tax payable	9,334
Accrued salaries and vacation	328,327
Accrued interest payable	73,897
Current portion long-term debt	1,546,279
Due to city - sewer and garbage charges	473,580
Consumer water meter deposits	172,433
Consumer sewer meter deposits	<u>94,870</u>
Total current liabilities	3,467,012
Long-term Debt, net of current portion	<u>15,915,265</u>
	<u>19,382,277</u>
Net Position	
Invested in capital assets, net of related debt	23,622,185
Restricted	
Sinking fund	686,193
Reserve fund	1,061,320
Improvement fund	250,000
Unrestricted	<u>1,464,926</u>
	<u>27,084,624</u>
	<u>\$ 46,466,901</u>

See notes to financial statements.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2014**

Operating Revenues	
Water sales	\$ 7,425,743
Miscellaneous charges	80,133
Service charges and penalties	<u>57,498</u>
Total operating revenues	<u>7,563,374</u>
Operating Expenses	
Operating expenses	4,967,245
Depreciation	<u>1,455,465</u>
Total operating expenses	<u>6,422,710</u>
Net operating income	<u>1,140,664</u>
Nonoperating income (expenses)	
Interest income	56,522
Interest expense	<u>(327,497)</u>
Total nonoperating expenses	<u>(270,975)</u>
869,689	
 Capital contributions - State Revolving Loan	 <u>480,000</u>
Change in net position	1,349,689
Net position, beginning of year	<u>25,734,935</u>
Net position, end of year	<u>\$ 27,084,624</u>

See notes to financial statements.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2014**

Cash Flows from Operating Activities	
Receipts from customers	\$ 7,483,669
Receipts from service charges and miscellaneous	137,535
Meter deposits received, net	(3,857)
Payments to suppliers	(3,461,461)
Payments to employees	(1,177,700)
Payments for interfund services	<u>(200,000)</u>
Net cash provided by operating activities	<u>2,778,186</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(1,173,028)
Principal payments on long-term debt	(1,407,000)
Principal borrowings on long-term debt	5,318,165
Interest payments on long-term debt	<u>(346,470)</u>
Net cash provided by capital and related financing activities	<u>2,391,667</u>
Cash Flows from Investing Activities	
Purchases of certificates of deposit	(91,788)
Redemptions of certificates of deposit	88,000
Purchase of U.S. Treasury security	(2,310,433)
Interest income	<u>60,027</u>
Net cash used by investing activities	<u>(2,254,194)</u>
Net increase in cash and cash equivalents	2,915,659
Cash and cash equivalents, beginning of year	<u>2,952,881</u>
Cash and cash equivalents, end of year	<u>\$ 5,868,540</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 1,140,664
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,455,465
Changes in assets and liabilities:	
Receivables, inventories and prepaids	26,773
Accounts payable and accrued expenses	<u>155,284</u>
Net cash provided by operating activities	<u>\$ 2,778,186</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities	
Equipment purchases financed through accounts payable	\$ 575,101
Capitalized interest on assets under construction	5,720
Long-term debt forgiveness	480,000
Bond premium amortization	4,398

See notes to financial statements.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 1. Summary of Significant Accounting Policies

The Keokuk Municipal Waterworks (Waterworks) currently provides water for the residential, commercial and industrial needs of locations within the City of Keokuk, Iowa. The governing body of the Waterworks is a Board of Trustees consisting of five members appointed by the City of Keokuk's Mayor and approved by the City of Keokuk's Council. The Board of Trustees has the responsibility for designated management and is accountable for fiscal matters relating to the Waterworks.

Reporting Entity

For financial reporting purposes, the Waterworks has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Waterworks 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 Waterworks are such that exclusion would cause the Waterworks' financial statements to be misleading or incomplete.

The Governmental Accounting Standards Board (GASB) 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 entity 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 entity.

Based on the above criteria, there are no agencies or entities that should be combined with the financial statements of the Waterworks. However, based on these criteria, the Waterworks is a component unit of the City of Keokuk for financial reporting purposes. The City of Keokuk has financial accountability for the Waterworks because it appoints a voting majority of the Waterworks' Board of Trustees.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Waterworks are prepared in accordance with accounting principles generally accepted in the United States of America. The Waterworks' reporting entity applies all relevant GASB pronouncements, except for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which has not been implemented. The Waterworks has not determined the impact of this departure on the financial statements.

The accounts of the Waterworks are primarily organized as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 1. Summary of Significant Accounting Policies (continued)

The financial statements are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Waterworks distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Waterworks' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Position

The Statement of Net Position is based on the following accounting policies:

Cash and Cash Equivalents

The Waterworks considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the time the service is billed. Unbilled water usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Waterworks grants credit to customers, substantially all of whom are located in Keokuk, Iowa. The risk of loss on accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after thirty days and charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. Because of the Waterworks' ability to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible; therefore, no allowance for uncollectible accounts has been recorded.

Restricted Assets

Restricted assets consist of cash and cash equivalents, certificates of deposit, a guaranteed investment contract, U.S. Treasury security and accounts receivable. These funds are set aside for sewer, garbage and landfill fees collected for others, water and sewer meter deposits, and bond sinking, bond reserve, bond improvement accounts, bond refinancing and capital projects. Waterworks carries its investment in the guaranteed investment contract at cost since it is a nonparticipating contract that has a fixed interest rate.

Inventories

Inventories, which consist of chemical supplies, are recognized at cost at the time they are purchased.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are accounted for at historical cost. Property and equipment are defined by the Waterworks as assets with an estimated useful life in excess of one year. Property and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings	10-40 years
Plant and tanks	5-100 years
Distribution system, meters and hydrants	15-80 years
Machinery and equipment	5-40 years

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

Compensated Absences

Waterworks employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. The Waterworks' liability for accumulated vacation and sick leave has been computed based on rates in effect at June 30, 2014.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Waterworks performed an evaluation of subsequent events through November 20, 2014, which is the date the financial statements were issued. There are no subsequent events that require disclosure or recognition in the financial statements as of June 30, 2014.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 2. Restricted Assets

Restricted assets consist of the following as of June 30, 2014:

	Cash and Cash Equivalents	Accounts Receivable	Certificates of Deposit	US Treasury security	Guaranteed Investment Contract
Sewer, garbage and landfill	\$ 217,894	\$ 255,686	\$ -	\$ -	\$ -
Consumer water meter deposits	172,433	-	-	-	-
Consumer sewer meter deposits	6,870	-	88,000	-	-
Sinking fund	686,193	-	-	-	-
Reserve fund	108,465	-	215,105	-	737,750
Improvement fund	250,000	-	-	-	-
Ultrafiltration capital project	2,686,211	-	-	-	-
Bond refinance for 2008 series	2,001	-	-	2,310,433	-
General regulatory and system improvements	<u>901,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total restricted assets	<u>\$ 5,031,402</u>	<u>\$ 255,686</u>	<u>\$ 303,105</u>	<u>\$ 2,310,433</u>	<u>\$ 737,750</u>

Note 3. Property and Equipment

Changes in property and equipment as June 30, 2014 consist of the following:

	Balance Beginning of year	Increases	Decreases	Balance End of year
Property and equipment not being depreciated:				
Land	\$ 461,766	\$ -	\$ -	\$ 461,766
Construction in progress	<u>1,680,004</u>	<u>1,257,257</u>	<u>(1,825,107)</u>	<u>1,112,154</u>
Total property and equipment not being depreciated	<u>2,141,770</u>	<u>1,257,257</u>	<u>(1,825,107)</u>	<u>1,573,920</u>
Property and equipment being depreciated/amortized:				
Building	474,108	2,810	(61,596)	415,322
Plant and tanks	44,855,941	1,990,376	-	46,846,317
Distribution system, meters and hydrants	6,030,965	77,440	-	6,108,405
Machinery and equipment	<u>858,127</u>	<u>47,309</u>	<u>-</u>	<u>905,436</u>
Total property and equipment being depreciated/amortized	<u>52,219,141</u>	<u>2,117,935</u>	<u>(61,596)</u>	<u>54,275,480</u>
Less accumulated depreciation/amortization for:				
Building	258,902	10,466	(61,596)	207,772
Plant and tanks	15,045,953	1,315,241	-	16,361,194
Distribution system, meters and hydrants	2,401,482	97,616	-	2,499,098
Machinery and equipment	<u>681,988</u>	<u>32,142</u>	<u>-</u>	<u>714,130</u>
Total accumulated depreciation/amortization	<u>18,388,325</u>	<u>1,455,465</u>	<u>(61,596)</u>	<u>19,782,194</u>
Total property and equipment, net	<u>\$ 35,972,586</u>	<u>\$ 1,919,727</u>	<u>\$ (1,825,107)</u>	<u>\$ 36,067,206</u>

For the year ended June 30, 2014, the Waterworks capitalized interest of \$5,720, for the interest costs incurred relating to the construction of the property.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 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 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.

Plan members are required to contribute 5.95% of their annual salary and the Waterworks is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 was \$103,643, \$96,381 and \$85,404, respectively, which was equal to the required contribution.

Note 5. Cash and Investments

The Waterworks' deposits at June 30, 2014 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 Waterworks and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The U.S. Treasury security is a special purpose security that the Department of Treasury issues to state and local government entities, upon request, to assist in complying with federal tax laws and Internal Revenue Service arbitrage regulations when entities have cash proceeds to invest from their issuance of tax exempt bonds. The U.S. Treasury security held by the Waterworks is held at fair value and matures on April 15, 2015 with an interest rate of 0.06%.

Note 6. Bonds and Long-Term Debt

On June 25, 2008, the Waterworks issued \$3,800,000 in Water Revenue Capital Loan Notes. These notes mature semi-annually beginning April 1, 2009 through April 1, 2023, with interest rates from 2.75% to 4.30%. Notes maturing after April 1, 2015 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The Waterworks issued 2014B series revenue notes to pay off this debt in April 2015.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 6. Bonds and Long-Term Debt (continued)

On March 27, 2013, the Waterworks issued \$10,000,000 in Water Revenue Refunding Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A. and deposited the proceeds from the refunding notes. The proceeds were used to advance refund 2004 Water Revenue Refunding Capital Loan Notes and 2005 Water Revenue Refunding Capital Loan Notes on the call date of April 1, 2013, and 2010 Water Revenue Capital Loan Notes. These notes mature semi-annually beginning October 1, 2013 through April 1, 2031, with interest rates from 1.85% to 3.10%. Notes maturing after April 1, 2019 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The notes were issued at a premium and the unamortized premium as of June 30, 2014 is \$33,021.

On April 12, 2013, the Waterworks issued \$1,600,000 in Water Revenue Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A., the trustee of the master trust of the Iowa Finance Authority, and deposited the proceeds from the notes. The proceeds are to be used to fund the Chlorine Generation System project. Upon completion of the project and receipt by the State of Iowa of a certification of completion from the Waterworks, \$480,000 of the outstanding debt will be forgiven. The remaining notes mature semi-annually beginning June 1, 2013 through June 1, 2032, with a 2.00% interest rate. During the year ended June 30, 2014, the Waterworks received the certificate of completion and the loan was forgiven. Accordingly, the Waterworks recognized capital contributions of \$480,000 for the year ended June 30, 2014.

On June 30, 2014, the Waterworks issued \$2,675,000 in Water Revenue Capital Loan Notes. These notes mature semi-annually beginning April 1, 2015 through April 1, 2034, with interest rates from 2.00% to 4.00%. Notes maturing after April 2, 2021 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The notes were issued at a premium and the unamortized premium as of June 30, 2014 is \$12,713.

On June 30, 2014, the Waterworks issued \$2,305,000 in Water Revenue Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A. and deposited the proceeds from the refunding notes. The proceeds will be used to advance refund 2008 Water Revenue Capital Loan Notes on the call date of April 1, 2015. These notes mature semi-annually beginning April 1, 2015 through April 1, 2023, with interest rates from 2.00% to 3.00%. Notes maturing after April 1, 2020 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The notes were issued at a premium and the unamortized premium as of June 30, 2014 is \$23,810.

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
2008 Series Revenue notes	\$ 2,745,000	\$ -	\$ (235,000)	\$ 2,510,000	\$ 240,000
2013B Series Revenue notes	10,037,419	-	(1,129,398)	8,908,021	1,154,398
2013A Series Revenue notes	1,252,358	301,642	(527,000)	1,027,000	48,000
2014A Series Revenue notes	-	2,687,713	-	2,687,713	100,758
2014B Series Revenue notes	-	2,328,810	-	2,328,810	3,123
Total Revenue notes	<u>\$ 14,034,777</u>	<u>\$ 5,318,165</u>	<u>\$ (1,891,398)</u>	<u>\$ 17,461,544</u>	<u>\$ 1,546,279</u>

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 6. Bonds and Long-Term Debt (continued)

Annual debt service requirements for Water Revenue Capital Loan Notes are as follows:

Year Ending June 30,	\$3,800,000 Water Revenue Capital Loan Notes Series 2008		\$10,000,000 Water Revenue Refunding Capital Loan Notes Series 2013B		\$1,600,000 Water Revenue Capital Loan Notes Series 2013A	
	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ 240,000	\$ 99,018	\$ 1,154,398	\$ 190,580	\$ 48,000
2016	245,000	90,288	1,179,405	167,580	49,000	17,133
2017	255,000	80,911	1,199,393	144,080	50,000	16,275
2018	265,000	70,868	1,224,397	120,180	51,000	15,400
2019	275,000	60,166	1,244,382	95,780	52,000	14,508
2020-2024	1,230,000	119,783	1,350,352	286,270	275,000	58,538
2025-2029	-	-	1,084,081	163,990	304,000	33,495
2030-2034	-	-	471,613	21,738	198,000	6,965
	<u>\$ 2,510,000</u>	<u>\$ 521,034</u>	<u>\$ 8,908,021</u>	<u>\$ 1,190,198</u>	<u>\$ 1,027,000</u>	<u>\$ 180,287</u>

Year Ending June 30,	\$2,675,000 Water Revenue Capital Loan Notes Series 2014A		\$2,305,000 Water Revenue Refunding Capital Loan Notes Series 2014B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ 100,758	\$ 66,327	\$ 3,123	\$ 41,478	\$ 1,546,279
2016	100,984	86,110	274,148	55,100	1,848,537	416,211
2017	110,961	84,110	278,742	49,700	1,894,096	375,076
2018	110,936	81,910	283,327	44,200	1,934,660	332,558
2019	115,911	79,710	287,906	38,600	1,975,199	288,764
2020-2024	609,103	358,880	1,201,564	87,200	4,666,019	910,671
2025-2029	702,885	252,350	-	-	2,090,966	449,835
2030-2034	836,175	102,800	-	-	1,505,788	131,503
	<u>\$ 2,687,713</u>	<u>\$ 1,112,197</u>	<u>\$ 2,328,810</u>	<u>\$ 316,278</u>	<u>\$ 17,461,544</u>	<u>\$ 3,319,994</u>

The resolutions providing for the issuance of the revenue notes include the following provisions:

A. Rate Covenant

The Waterworks covenants to continue in effect rates for services rendered to be sufficient to produce gross revenues adequate to pay expenses of operation and maintenance and to maintain a balance of net revenues equal to at least 125% of the principal and interest on the 2008, 2013A, 2013B, 2014A and 2014B Series notes as they become due.

B. Sinking Fund

For the 2008, 2013A, 2013B, 2014A and 2014B Series notes, the Sinking Fund requirement is an amount on deposit equal to the monthly amount of the next principal and interest payment.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 6. Bonds and Long-Term Debt (continued)

C. Reserve Fund

For the 2008, 2013A, 2013B, 2014A and 2014B Series notes, the Reserve Fund requirement is an amount equal to the lesser of (a) the maximum principal and interest coming due on the notes in any fiscal year, (b) 10% of the stated principal of the notes, or (c) 125% of the average annual debt service on the notes. Amounts on deposit in the Reserve Fund shall be solely for the purpose of paying principal and interest on the notes. The Reserve Fund is to be valued on April 1st of each year and whenever the amount on deposit is less than the Reserve Fund requirement. The Waterworks is required to make monthly deposits in an amount equal to 25% of the amount required to be deposited in the Sinking Fund until the Reserve Fund has been restored.

D. Improvement Fund

For the 2008 and 2013A Series notes, the Improvement Fund requirement is \$250,000. Money on deposit in the Improvement Fund shall be used for the purpose of paying principal and interest on the notes when there are insufficient balances in the Sinking Fund and Reserve Fund. Funds may also be used to pay the costs of extraordinary maintenance expenses or repairs, renewals and replacement. Whenever it shall become necessary to use the money on deposit in the Improvement Fund, the Waterworks shall deposit \$21,000 per month until the amount on deposit is restored to \$250,000. There is no Improvement Fund requirement for the 2013B, 2014A and 2014B Series notes.

Note 7. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial liability insurance. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Note 8. Major Customers

Water sales to one major customer totaled \$5,373,550 for the year ended June 30, 2014, representing approximately 71% of the total operating revenue for the year. At June 30, 2014, the amount due from this customer was \$453,833, which is included in accounts receivable.

Note 9. Related Party Transactions

During the year ended June 30, 2014, the Waterworks had business transactions with one employee amounting to \$1,925.

The Waterworks' manager and member of Waterworks' Board of Trustees are board members for a local bank. As of June 30, 2014, the Waterworks has \$4,816,974 in cash held at the bank and paid \$154,796 in insurance premiums to the bank's affiliate during the year ended June 30, 2014.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Notes to Financial Statements**

Note 10. Related Organization

Based on criteria set by the GASB, the Keokuk Municipal Waterworks is a component unit of the City of Keokuk for financial reporting purposes. The City of Keokuk has financial accountability for the Waterworks under these criteria because it appoints a voting majority of the Waterworks' Board of Trustees.

The Waterworks provides billing service for sewer and garbage for the City of Keokuk and collects fees for these services. Total fees collected for the City were \$2,641,070 and billing service fees received by Waterworks amounted to \$18,690 for the year ending June 30, 2014. As of June 30, 2014, amounts due from the City for billing service fees was \$1,865. Amounts due to the City as of June 30, 2014 were \$473,580 for sewer and garbage charges and \$1,960 for vehicle cost reimbursement.

For the year ended June 30, 2014, the Waterworks made a payment in lieu of taxes to the City of Keokuk for \$200,000.

Note 11. Prospective Accounting Change

GASB has issued one Statement not yet implemented by the Waterworks. Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, will be effective for the Waterworks for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments that provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a liability for the Waterworks' proportionate share of the employee pension plan. In the year that Statement No. 68 is implemented, the beginning Net Position will be retroactively restated for prior periods presented. The Waterworks' management has not yet determined the effect this Statement will have on the Waterworks' financial statements.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Required Supplementary Information
Comparison of Cash Receipts and Disbursements - Actual to Budget
For the Year Ended June 30, 2014**

	<u>Actual</u>	Budgeted Amounts - <u>Final</u>	Budgeted Amounts - <u>Original</u>	Variance: Favorable <u>(Unfavorable)</u>
Receipts	\$ 13,087,396	\$ 13,153,188	\$ 7,504,202	\$ (65,792)
Disbursements	<u>10,171,737</u>	<u>13,153,188</u>	<u>7,504,202</u>	<u>2,981,451</u>
Changes in cash and cash equivalents	<u>\$ 2,915,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,915,659</u>

The following table is a reconciliation of the actual operating results presented consistent with the basis used to generate the budget to the operating results presented in the Statement of Revenues, Expenses and Changes in Fund Net Position:

Changes in cash and cash equivalents, as presented above	\$ 2,915,659
Add: Cash expenditures for property, plant and equipment capitalized under GAAP	1,173,028
Add: Cash expenditures for long-term debt interest payments capitalized under GAAP	5,720
Add: Cash expenditures for long-term debt principal payments	1,407,000
Add: Change in accrued interest payable	8,855
Add: Cash expenditure for purchases of certificates of deposit	91,788
Add: Cash expenditure for purchases of U.S. Treasury security	2,310,433
Add: Long-term debt forgiveness	480,000
Add: Bond premium amortization	4,398
Subtract: Cash receipts from redemption of certificates of deposit	(88,000)
Subtract: Change in accounts receivable, inventory and prepaids	(26,773)
Subtract: Change in accrued interest receivable	(3,505)
Subtract: Change in accounts payable and accrued expenses	(155,284)
Subtract: Depreciation expense	(1,455,465)
Subtract: Cash proceeds for long-term debt issuance	<u>(5,318,165)</u>
Changes in net position, as presented in the Statement of Revenues, Expenses and Changes in Fund Net Position	<u>\$ 1,349,689</u>

See accompanying independent auditor's report.

Keokuk Municipal Waterworks
A Component Unit of the City of Keokuk
Required Supplementary Information
Notes to Required Supplementary Information - Actual to Budget
Year Ended June 30, 2014

The Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing on all funds and submits it to the City Council. 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 or category type. The Waterworks' disbursements are budgeted in the business type activities function. During the year, a budget amendment increased disbursements by \$5,648,986. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Schedule of Changes in Assets Restricted
for Landfill, Sewer and Garbage Charges
For the Year Ended June 30, 2014**

	<u>Landfill Charges</u>	<u>Sewer Charges</u>	<u>Garbage Charges</u>	<u>Total</u>
Restricted asset balance, June 30, 2013	\$ -	\$ 302,752	\$ 142,293	\$ 445,045
Fees				
Landfill service charges	10	-	-	10
Sewer service charges	-	1,945,159	-	1,945,159
Garbage service charges	-	-	695,911	695,911
Less billing adjustments	<u>-</u>	<u>(24,505)</u>	<u>(5,888)</u>	<u>(30,393)</u>
	<u>10</u>	<u>1,920,654</u>	<u>690,023</u>	<u>2,610,687</u>
Expenditures				
To the City of Keokuk	<u>(10)</u>	<u>(1,900,595)</u>	<u>(681,547)</u>	<u>(2,582,152)</u>
	<u>(10)</u>	<u>(1,900,595)</u>	<u>(681,547)</u>	<u>(2,582,152)</u>
Restricted asset balance, June 30, 2014	<u>\$ -</u>	<u>\$ 322,811</u>	<u>\$ 150,769</u>	<u>\$ 473,580</u>
Restricted asset balance is composed of the following:				
Cash and cash equivalents	\$ -	\$ 157,369	\$ 60,525	\$ 217,894
Accounts receivable	<u>-</u>	<u>165,442</u>	<u>90,244</u>	<u>255,686</u>
	<u>\$ -</u>	<u>\$ 322,811</u>	<u>\$ 150,769</u>	<u>\$ 473,580</u>

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Schedule of Changes in Assets Restricted for
Water Revenue Capital Loan Notes Debt Service
For the Year Ended June 30, 2014**

	Water Revenue Notes Sinking Fund	Water Revenue Notes Reserve Fund	Water Revenue Notes Improvement Fund	Total
Restricted asset balance, June 30, 2013	\$ <u>427,738</u>	\$ <u>1,025,679</u>	\$ <u>250,000</u>	\$ <u>1,703,417</u>
Receipts				
Transfers from (to) operations	2,011,925	-	-	2,011,925
Transfers from bond proceeds	<u>-</u>	<u>35,641</u>	<u>-</u>	<u>35,641</u>
	<u>2,011,925</u>	<u>35,641</u>	<u>-</u>	<u>2,047,566</u>
Expenditures				
Note principal payments	(1,407,000)	-	-	(1,407,000)
Note interest payments	<u>(346,470)</u>	<u>-</u>	<u>-</u>	<u>(346,470)</u>
	<u>(1,753,470)</u>	<u>-</u>	<u>-</u>	<u>(1,753,470)</u>
Restricted asset balance, June 30, 2014	\$ <u>686,193</u>	\$ <u>1,061,320</u>	\$ <u>250,000</u>	\$ <u>1,997,513</u>

See accompanying independent auditor's report.



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

**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***

Board of Trustees
Keokuk Municipal Waterworks
A Component Unit of the City of Keokuk
Keokuk, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the proprietary fund of Keokuk Municipal Waterworks (Waterworks), A Component Unit of the City of Keokuk, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements, and have issued our report thereon dated November 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Waterworks' 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 Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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 Waterworks' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs as item I-A-14 and I-B-14 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*; however, we noted certain other matters which are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Waterworks' Responses to Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Waterworks' responses were not subjected to the auditing procedures applied in 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 results of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CPA Associates PC

November 20, 2014

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES

I-A-14 Preparation of Financial Statements - The Waterworks does not have an internal control system designed to record all transactions in conformity with accounting principles generally accepted in the United States of America. During the audit, we noted that the Waterworks relies on proposed audit adjustments to correct the vacation and sick time accrual to be in conformity with GASB No. 16, record property and equipment additions, disposals and related depreciation expense and adjust bond interest expense accounts to appropriately account for principal payments. Audit adjustments resulted in an increase to change in net position by approximately \$1.7 million.

Recommendation - The Waterworks should re-evaluate its year-end close process and consider recording these entries before the start of the audit.

Response - The Waterworks will review and monitor procedures currently in place and evaluate how changes can be made.

Conclusion - Response accepted.

I-B-14 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Board of Trustees and management should continue to provide oversight and direction based upon their direct knowledge of the Waterworks' operations and day-to-day contact with employees to control and safeguard assets.

Response - The Waterworks will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

Part II: Other Findings Related to Required Statutory Reporting

II-A-14 Official Depositories - A resolution naming official depositories has been adopted by the Waterworks. The maximum deposit amount stated in the resolution was exceeded at Keokuk Savings Bank during the year ended June 30, 2014.

Recommendation - The Waterworks should transfer cash to another bank or amend the depository resolution.

Response - The Waterworks will amend its depository resolution to increase the maximum deposit amounts.

Conclusion - Response accepted.

II-B-14 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

II-C-14 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.

II-D-14 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks minutes but were not.

II-E-14 Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Willow Tree	Sympathy gifts and kitchen supplies	\$ 53.50
Subway	Special board meeting lunch	73.83
Country Market	Special board meeting lunch	11.98
YMCA	Membership dues	178.50
Hy-Vee	Board meeting luncheon	55.06

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items are certainly subject to a deserved close scrutiny. The line between a proper and an improper purpose is very thin.

Recommendation - The Waterworks' Board of Trustees should determine and document the public purpose served by these disbursements before authorizing any further payments.

Response - The Waterworks Board of Trustees will establish written policies and procedures in determining the public purpose of disbursements.

Conclusion - Response accepted.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

- II-F-14 Business Transactions with Waterworks Officials and Employees - Business transactions between Waterworks officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Mike Haney, Employee	Mowing	\$ 1,925

The mowing transactions do not appear to represent a conflict of interest since these were entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- II-G-14 Revenue Bonds and Notes - No instances of noncompliance with the revenue bond and note resolutions were noted, except for failure to file continuing disclosure information timely.

Recommendation - Management and the Board of Trustees should ensure continuing disclosures are filed on time.

Response - The Waterworks will verify its continuing disclosure filings are timely.

Conclusion - Response accepted.

- II-H-14 Unclaimed Property - Chapter 556.11 of the Code of Iowa requires a public utility to report and remit obligations, including checks outstanding for more than one to two years, to the State Treasurer's office annually. The Waterworks did not remit these obligations as required.

Recommendation - The outstanding checks should be reviewed annually and items over two years old should be remitted to the State Treasurer's Office as required.

Response - Management is in the process of researching the outstanding checks and remitting funds to the State of Iowa. The Waterworks plans to remit checks to the State of Iowa from the general account as of November 1, 2014.

Conclusion - Response accepted.

**Keokuk Municipal Waterworks,
A Component Unit of the City of Keokuk
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

II-I-14 Unsupported Expense Reimbursements - For the year ended June 30, 2014, the Waterworks' reimbursed employees for expenses in the amount of \$752.43 without obtaining independent supporting documentation (e.g. store receipt or invoice for dues).

Recommendation - The Waterworks should only reimburse employees when the proper documentation is submitted to validated the expenditure.

Response - The Waterworks Board of Trustees will establish written policies of procedures for all reimbursement to employees.

Conclusion - Response accepted.

II-J-14 Project Bidding Requirements - Bids are required to be obtained for capital expenditures for public improvements exceeding the competitive bid threshold as established by Chapter 26.3 of the Code of Iowa. The contract must be awarded to the lowest responsive, responsible bidder. Contracts related to public utilities may be awarded as deemed to be in the best interest of the governmental entity as noted in Chapter 26.9 of the Code of Iowa. The Waterworks did not obtain bids for construction work that exceeded the threshold for two capital projects.

Recommendation - The Waterworks should obtain bids for all public improvement projects exceeding the bidding threshold. If the project is awarded to a contractor other than the low bidder, the Waterworks should provide documentation as to how the decision is in the best interest of the Waterworks.

Response - Due to severe river conditions during the winter of 2013 it was necessary to expedite the instillation of additional membrane filters. This equipment is proprietary in design and is only available through a sole source provider.

Conclusion - Response accepted.