

**MARSHALLTOWN WATER WORKS**

**Independent Auditors' Reports  
Financial Statements and  
Supplementary Information  
Schedule of Findings**

**June 30, 2014 and 2013**

# MARSHALLTOWN WATER WORKS

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## MARSHALLTOWN WATER WORKS

### Officials

| <u>Name</u>    | <u>Title</u>               | <u>Term Expires</u> |
|----------------|----------------------------|---------------------|
| Kenneth Vinson | Trustee – Chairperson      | May 1, 2017         |
| Jerry Young    | Trustee                    | May 1, 2019         |
| Laura Eilers   | Trustee                    | May 1, 2018         |
| Steve Sincox   | CEO/General Manager        | Indefinite          |
| Tim Wilson     | Director of Water Products | Indefinite          |
| Dana Pope      | Director of Distribution   | Indefinite          |
| Pat Willey     | Director of Finance        | Indefinite          |



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report

To the Board of Trustees  
Marshalltown Water Works  
Marshalltown, Iowa

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Marshalltown Water Works, a component unit of the City of Marshalltown, as of and for the years ended June 30, 2014 and 2013, and the related Notes to 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 U.S. generally accepted accounting principles. 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 auditors' 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshalltown Water Works, Marshalltown, Iowa, a component unit of the City of

Marshalltown, as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4-6 and 22-24 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 appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 audits 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.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in pages 25 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 audits 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 U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated, in all material respect, 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 September 16, 2014 on our consideration of Marshalltown 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 Marshalltown Waterworks' internal control over financial reporting and compliance.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
September 16, 2014

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## MANAGEMENT DISCUSSION AND ANALYSIS

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This section of the Marshalltown Water Works' Annual Financial Report presents our discussion of the Water Works' financial activities for the fiscal year ending June 30, 2014.

Use this discussion in conjunction with the financial statements to better understand the Water Works' financial condition, which follows this section.

### 2014 FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES

- ◆ Operating revenues of the Water Works increased 2.3%, or approximately \$76,000, from fiscal year 2013 to fiscal year 2014. An overall increase in water usage due to hot dry weather was responsible for this increase.
- ◆ Operating expenses of the Water Works increased 4.4% or approximately \$138,000 in fiscal year 2014 from fiscal year 2013. Salaries and benefits increased due to a change in staffing levels. Supply costs increased due to a record number of water main breaks. Chemical expenses increased due to an increase in lime residuals removal costs. The cost of workers' compensation and property and casualty insurance decreased.
- ◆ The Water Works net position increased 0.8% or approximately \$106,600 due primarily to expenses being lower than budgeted.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Water Works' financial activities.

The financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. These provide information about the activities of the Marshalltown Water Works and present an overall view of the Water Works' finances.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Water Works' budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary information provides detailed information about the Statements of Net Position, expense accounts and debt of the Water Works.

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The Statements of Net Position include all of the Water Works' assets and liabilities. All of the current year's revenues and

expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position regardless of when cash is received or paid.

The Statements of Net Position report the Water Works' net position and how they have changed. Net position (the difference between the Water Works' assets and liabilities) is one way to measure the Water Works' financial health or position. Over time, increases and decreases in the Water Works' net position is an indicator of whether its financial health is improving or deteriorating.

The Water Works is considered a business type activity because it charges fees to customers to cover the costs of all services it provides.

### **FINANCIAL ANALYSIS OF THE WATER WORKS AS A WHOLE**

- ◆ Operating revenues for the Water Works increased \$75,799 over fiscal year 2013 and operating expenses increased \$138,318 resulting in operating income of \$121,432. After all non-operating income and expenses were recorded; the Water Works reported a net increase of \$106,618 for the year ending June 30, 2014.
- ◆ The Water Works' operating revenues were \$3,383,129, which resulted in an increase from the previous year and was approximately 98% of the budgeted revenues. Operating expenses for fiscal year 2014 were 93.5% of the budgeted amount approved by the Board of Trustees in March 2013.

### **DEBT ADMINISTRATION**

- ◆ During fiscal year 2014, the Marshalltown Water Works paid \$232,214 in principal and interest towards our water revenue capital loan note. This was the final payment on the note. The debt service coverage ratio was 3.06, well above the required 1.25 ratio.

### **CONDITIONS OF THE WATER WORKS INFRASTRUCTURE**

- ◆ The Marshalltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshalltown Water Works spent most of 2014 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We look at areas within the City where we have received complaints on pressure or quality and as those complaints increase in a certain area we look at the possibility of upgrading those systems to meet the demands of our customers.
- ◆ The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.
- ◆ During fiscal year 2014 two of our four elevated water towers were inspected.
- ◆ The electrical control building for two of our wells was raised and replaced during fiscal year 2014. This is part of a multi-year project to raise all wells to the same elevation, thereby protecting them from a 100 year flood occurrence.
- ◆ The final well in our multi-year plan is planned to be raised and rehabilitated during fiscal year 2015.

- ◆ Other planned system upgrades for fiscal year 2015 include inspection and rehabilitation of two wells, water meter replacement, vehicle replacement and water main replacement.

### **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

- ◆ In September 2010 HDR Engineering Inc. reported the findings of their Comprehensive Water Rate Study. They recommended to the Board of Trustees to raise rates in order to achieve our revenue requirements over a 5 year planning horizon. The first rate increase of 6.5% was implemented in October 2010. The purpose of the rate increase was to replenish the operative and capital reserves as well as fully fund our 5 year capital improvement plan.
- ◆ The second of three recommended 6.5% rate increases was approved by the board of trustees for the 2012 – 2013 fiscal year. The third and final recommended 6.5% rate increase in the study was approved by the board of trustees in April 2014 for the 2014 – 2015 fiscal year.

### **CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT**

This financial report is designed to provide customers, investors, and creditors of the Marshalltown Water Works with a general overview of its financial situation and to demonstrate the accountability of the Water Works for the money it receives. If you have any questions about this report, you may contact either Steve Sincox or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

# MARSHALLTOWN WATER WORKS

## Statements of Net Position June 30, 2014 and 2013

|                                      | <u>2014</u>          | <u>2013</u>       | <u>Increase<br/>(Decrease)</u> |
|--------------------------------------|----------------------|-------------------|--------------------------------|
| <b><u>ASSETS:</u></b>                |                      |                   |                                |
| Current assets:                      |                      |                   |                                |
| Cash and cash equivalents            | \$ 1,235,600         | 1,004,862         | 230,738                        |
| Receivables:                         |                      |                   |                                |
| Customer                             | 271,640              | 277,230           | (5,590)                        |
| Unbilled water usage                 | 58,288               | 53,186            | 5,102                          |
| Other receivables                    | 31,888               | 32,929            | (1,041)                        |
| Prepaid expenses                     | 36,518               | 30,550            | 5,968                          |
| Restricted cash and cash equivalents | 484,469              | 398,844           | 85,625                         |
| Total current assets                 | <u>2,118,403</u>     | <u>1,797,601</u>  | <u>320,802</u>                 |
| Investments:                         |                      |                   |                                |
| Certificates of deposit              | 300,000              | 300,000           | -                              |
| Capital reserve                      | 400,802              | 400,550           | 252                            |
| Total investments                    | <u>700,802</u>       | <u>700,550</u>    | <u>252</u>                     |
| Capital assets:                      |                      |                   |                                |
| Capital assets                       | 25,022,753           | 24,630,640        | 392,113                        |
| Accumulated depreciation             | (13,721,514)         | (13,140,773)      | (580,741)                      |
| Net capital assets                   | <u>11,301,239</u>    | <u>11,489,867</u> | <u>(188,628)</u>               |
| <br>                                 |                      |                   |                                |
| Total assets                         | \$ <u>14,120,444</u> | <u>13,988,018</u> | <u>132,426</u>                 |

|   | <u>2014</u>              | <u>2013</u>           | <u>Increase<br/>(Decrease)</u> |
|---|--------------------------|-----------------------|--------------------------------|
| <b><u>LIABILITIES:</u></b>                |                          |                       |                                |
| Current liabilities:                      |                          |                       |                                |
| Accounts payable                          | \$ 206,039               | 64,935                | 141,104                        |
| Payable from restricted assets:           |                          |                       |                                |
| Landfill fees                             | 11,209                   | 10,037                | 1,172                          |
| Sewer fees                                | 261,697                  | 206,809               | 54,888                         |
| Storm sewer fees                          | 48,413                   | 20,779                | 27,634                         |
| Customer deposits - sewer                 | 92,205                   | 82,280                | 9,925                          |
| Customer deposits - water                 | 67,940                   | 60,785                | 7,155                          |
| Accrued liabilities                       | 123,898                  | 130,306               | (6,408)                        |
| Current portion of long-term debt         | -                        | 225,000               | (225,000)                      |
| Total current liabilities                 | <u>811,401</u>           | <u>800,931</u>        | <u>10,470</u>                  |
| Long-term liabilities:                    |                          |                       |                                |
| Capital loan note                         | -                        | 225,000               | (225,000)                      |
| Less: current portion                     | -                        | (225,000)             | 225,000                        |
| Net OPEB liability                        | <u>77,472</u>            | <u>62,134</u>         | <u>15,338</u>                  |
| Total long-term liabilities               | <u>77,472</u>            | <u>62,134</u>         | <u>15,338</u>                  |
| Total liabilities                         | <u>888,873</u>           | <u>863,065</u>        | <u>25,808</u>                  |
| <b><u>NET POSITION:</u></b>               |                          |                       |                                |
| Net investment in capital assets          | 11,301,239               | 11,264,867            | 36,372                         |
| Restricted for revenue note retirement    | -                        | 232,312               | (232,312)                      |
| Unrestricted:                             |                          |                       |                                |
| Board restricted for capital improvements | 400,802                  | 400,550               | 252                            |
| Unrestricted                              | <u>1,529,530</u>         | <u>1,227,224</u>      | <u>302,306</u>                 |
| Total net position                        | <u>13,231,571</u>        | <u>13,124,953</u>     | <u>106,618</u>                 |
| <br>Total liabilities and net position    | <br><u>\$ 14,120,444</u> | <br><u>13,988,018</u> | <br><u>132,426</u>             |

# MARSHALLTOWN WATER WORKS

## Statements of Revenues, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013

|                            | <u>2014</u>      | <u>2013</u>      | <u>Increase<br/>(Decrease)</u> |
|----------------------------|------------------|------------------|--------------------------------|
| Operating revenues:        |                  |                  |                                |
| Residential                | \$ 1,430,063     | 1,426,968        | 3,095                          |
| Multi-family               | 185,965          | 185,428          | 537                            |
| Commercial                 | 437,663          | 432,400          | 5,263                          |
| Irrigation                 | 60,085           | 54,397           | 5,688                          |
| Industrial                 | 435,378          | 426,795          | 8,583                          |
| Wholesale                  | 705,973          | 666,040          | 39,933                         |
| Non-metered                | 3,457            | 1,292            | 2,165                          |
| City contract services     | 62,107           | 59,918           | 2,189                          |
| Penalties                  | 35,729           | 30,984           | 4,745                          |
| Customer service           | 23,418           | 19,277           | 4,141                          |
| Testing laboratory         | 3,291            | 3,831            | (540)                          |
| Total operating revenues   | <u>3,383,129</u> | <u>3,307,330</u> | <u>75,799</u>                  |
| Operating expenses:        |                  |                  |                                |
| Salaries and wages         | 1,001,738        | 975,480          | 26,258                         |
| Payroll taxes and benefits | 378,437          | 363,981          | 14,456                         |
| Utilities                  | 256,138          | 249,852          | 6,286                          |
| Fuels                      | 21,418           | 18,752           | 2,666                          |
| Supplies                   | 159,323          | 88,973           | 70,350                         |
| Maintenance                | 83,695           | 62,596           | 21,099                         |
| Chemicals                  | 658,890          | 622,201          | 36,689                         |
| Contract services          | 8,263            | 3,436            | 4,827                          |
| Insurance                  | 57,095           | 66,425           | (9,330)                        |
| Professional fees          | 15,405           | 17,465           | (2,060)                        |
| Other operating expense    | 31,420           | 30,998           | 422                            |
| Depreciation               | 589,875          | 623,220          | (33,345)                       |
| Total operating expenses   | <u>3,261,697</u> | <u>3,123,379</u> | <u>138,318</u>                 |
| Operating income           | <u>121,432</u>   | <u>183,951</u>   | <u>(62,519)</u>                |

# MARSHALLTOWN WATER WORKS

## Statements of Revenues, Expenses and Changes in Net Position (Continued) For the Years Ended June 30, 2014 and 2013

|   | <u>2014</u>          | <u>2013</u>       | <u>Increase<br/>(Decrease)</u> |
|---|----------------------|-------------------|--------------------------------|
| Non-operating revenues (expenses):      |                      |                   |                                |
| Interest income                         | 5,462                | 6,149             | (687)                          |
| Rentals                                 | 1,050                | 1,050             | -                              |
| Miscellaneous income                    | 10,126               | 7,451             | 2,675                          |
| Interest expense                        | (7,214)              | (14,300)          | 7,086                          |
| Miscellaneous expense                   | (24,238)             | (23,648)          | (590)                          |
| Total non-operating revenues (expenses) | <u>(14,814)</u>      | <u>(23,298)</u>   | <u>8,484</u>                   |
| Changes in net position                 | 106,618              | 160,653           | (54,035)                       |
| Net position, beginning                 | <u>13,124,953</u>    | <u>12,964,300</u> | <u>160,653</u>                 |
| Net position, ending                    | <u>\$ 13,231,571</u> | <u>13,124,953</u> | <u>106,618</u>                 |

# MARSHALLTOWN WATER WORKS

## Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

|   | <u>2014</u>             | <u>2013</u>          |
|---|-------------------------|----------------------|
| <b>Cash flows from operating activities:</b>  |                         |                      |
| Cash received from customers  | \$ 3,384,658            | 3,352,859            |
| Cash payments to suppliers for goods and services   | (1,054,299)             | (1,139,630)          |
| Cash payments to employees and professional contractors<br>for services                         | <u>(1,388,021)</u>      | <u>(1,324,333)</u>   |
| Net cash provided by operating activities   | <u>942,338</u>          | <u>888,896</u>       |
| <b>Cash flows from investing activities:</b>  |                         |                      |
| Proceeds from the sale of investments   | 703,504                 | 703,647              |
| Purchase of investments   | (703,756)               | (701,021)            |
| Investment income   | 5,462                   | 6,149                |
| Receipt of rental income  | 1,050                   | 1,050                |
| Other non-operating expenses  | <u>(14,112)</u>         | <u>(16,197)</u>      |
| Net cash used in investing activities   | <u>(7,852)</u>          | <u>(6,372)</u>       |
| <b>Cash flows from capital and related financing activities:</b>                                |                         |                      |
| Payment on revenue bond   | (225,000)               | (215,000)            |
| Net OPEB liability  | 15,338                  | 14,748               |
| Interest paid on revenue bond/note  | (7,214)                 | (14,300)             |
| Acquisition of capital assets   | <u>(401,247)</u>        | <u>(373,965)</u>     |
| Net cash used by financing activities   | <u>(618,123)</u>        | <u>(588,517)</u>     |
| <br>Net change in cash and cash equivalents   | <br>316,363             | <br>294,007          |
| <br>Cash and cash equivalents at beginning of year  | <br><u>1,403,706</u>    | <br><u>1,109,699</u> |
| <br>Cash and cash equivalents at end of year  | <br><u>\$ 1,720,069</u> | <br><u>1,403,706</u> |
| <br><b>Reconciliation of operating income to net cash provided by<br/>operating activities:</b> |                         |                      |
| Operating income  | \$ 121,432              | 183,951              |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities:      |                         |                      |
| Depreciation  | 589,875                 | 623,220              |

# MARSHALLTOWN WATER WORKS

## Statements of Cash Flows (Continued) For the Years Ended June 30, 2014 and 2013

|   | <u>2014</u>       | <u>2013</u>    |
|---|-------------------|----------------|
| (Increase) decrease in assets:            |                   |                |
| Accounts receivable                       | 5,590             | 16,676         |
| Unbilled water usage                      | (5,102)           | 25,658         |
| Other receivables                         | 1,041             | 3,195          |
| Prepaid expenses                          | (5,968)           | 6,089          |
| Increase (decrease) in liabilities:       |                   |                |
| Accounts payable                          | 141,104           | 5,126          |
| Payable to sewer fund                     | 54,888            | 3,861          |
| Payable to landfill fund                  | 1,172             | (464)          |
| Payable to storm sewer fund               | 27,634            | (1,201)        |
| Customer deposits-sewer                   | 9,925             | 4,770          |
| Customer deposits-water                   | 7,155             | 3,245          |
| Accrued liabilities                       | <u>(6,408)</u>    | <u>14,770</u>  |
| Net cash provided by operating activities | <u>\$ 942,338</u> | <u>888,896</u> |

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements June 30, 2014 and 2013

### Note 1. Summary of Significant Accounting Policies

The Marshalltown Water Works (the Water Works) is a component unit of the City of Marshalltown, as determined by criteria specified by the Governmental Accounting Standards Board. The Marshalltown Water Works is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria.

The financial statements of the Water Works are prepared in accordance with accounting principles generally accepted in the United States of America. The Water Works reporting entity applies all relevant GASB pronouncements. The Water Works has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The accounts of the Water Works are primarily organized as an enterprise fund. Enterprise funds are used to account for operations 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.

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 the liability is incurred, regardless of the timing of related cash flows.

The Water Works 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 Water Works' principal ongoing operations. All revenue and expenses not meeting the definition are reported as nonoperating revenues and expenses.

#### A. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Water Works considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### B. Customer Accounts and Unbilled Usage

Accounts receivable represent uncollected amounts billed for water usage at June 30, 2014 and 2013. Because of the Water Works' policy 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. Unbilled usage for service consumed between periodic schedule billing dates is estimated as revenue in the period in which the service is provided.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Budgets

In accordance with the Code of Iowa, the Water Works annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

#### D. Estimates

The Water Works uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

#### E. Capital Assets

Additions to the plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Reportable capital assets are defined by the Water Works as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u>                      | <u>Amount</u> |
|---|---------------|
| Plants, wells, storage and distribution | \$5,000       |
| Meters                                  | 5,000         |
| Equipment and vehicles                  | 1,000         |

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

| <u>Asset Class</u>        | <u>Estimated<br/>Useful Lives<br/>(In Years)</u> |
|---------------------------|--|
| Plants, wells and storage | 10-40 years                                      |
| Distribution property     | 50-99 years                                      |
| Meters                    | 10-20 years                                      |
| Vehicles                  | 5 years  |
| Equipment                 | 7-10 years                                       |

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 1. Summary of Significant Accounting Policies (Continued)

#### F. Restricted Assets

Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and amounts due to the City of Marshalltown for collection of sewer, landfill and storm sewer fees.

#### G. Net Position

Net Position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

### Note 2. Cash and Pooled Investments

The Water Works' deposits at June 30, 2014 and 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 Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposits at June 30, 2014 and 2013.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 2. Cash and Pooled Investments (continued)

Interest rate risk – The Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Water Works.

### Note 3. Compensated Absences

Water Works employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The liability is recorded in the Statements of Net Position based on current rates of pay.

### Note 4. Pension and Retirement Benefits

The Water Works maintains the Marshalltown Water Works Supplemental Retirement and Pension Plan, which is a single employer defined benefit plan administered by United Bank and Trust. The Water Works' payrolls covered by the Plan for the years ended June 30, 2014, 2013, and 2012 were \$500,366, \$478,884, and \$479,708, respectively, while total payrolls for 2014, 2013 and 2012 were \$999,117, \$947,288 and \$932,439, respectively.

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 2014. The Board of Trustees has the authority to amend the Plan at any time.

Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of their average monthly compensation multiplied by the number of years of consecutive service for the years ended 2014, 2013 and 2012. Service prior to January 1, 1986 shall be limited to 25 years. Benefits are fully vested on reaching 10 or more years of credited service. The Plan also provides death and disability benefits.

The Plan is an actuarially funded system. The pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases. Significant actuarial assumptions used in the determination of the contribution and where applicable, in arriving at the benefit obligation, include a 7% investment return, 3% projected salary increases, retirement at age 65, and mortality based on the 1983 group annuity mortality table.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 4. Pension and Retirement Benefits (Continued)

The pension benefit obligations as of April 1, 2014, 2013 and 2012 were as follows:

|  | <u>2014*</u>        | <u>2013*</u>     | <u>2012*</u>     |
|--|---------------------|------------------|------------------|
| Vested:  |                     |                  |                  |
| Active   | \$ 295,352          | 258,711          | 236,878          |
| Retired  | <u>1,591,725</u>    | <u>1,681,442</u> | <u>1,707,155</u> |
| Total vested   | 1,887,077           | 1,940,153        | 1,944,033        |
| Employer financed                                    | <u>705,441</u>      | <u>631,818</u>   | <u>585,674</u>   |
| Total pension benefit obligations                    | \$ <u>2,592,518</u> | <u>2,571,971</u> | <u>2,529,707</u> |
| Net assets available for benefits<br>at market value | \$ 1,271,309        | 1,200,008        | 1,183,518        |
| (cost 2014: \$1,017,627)                             |                     |                  |                  |
| (cost 2013: \$1,049,406)                             |                     |                  |                  |
| (cost 2012: \$1,080,957)                             |                     |                  |                  |
| Prepaid (unfunded) pension                           | \$ (1,321,209)      | (1,371,963)      | (1,346,189)      |

\*An actuarial valuation was performed on April 1, 2013. Estimated values have been calculated as of April 1, 2014 and April 1, 2012.

The Water Works' funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due.

The frozen entry age actuarial cost method is used to determine annual plan costs. The employer contribution rate for the year ended June 30, 2014 was 8.93% plus an additional \$3,000 per bi-weekly payroll and for the years ended June 30, 2013 and 2012 was 8.67% and 7.25%, respectively, plus an additional \$3,000 per bi-weekly payroll. The employee contribution rate for the year ended June 30, 2014 was 4.95% and for the years ended June 30, 2013 and 2012 was 4.78% and 4%, respectively. Contributions paid by the Water Works for the years ended June 30, 2014, 2013 and 2012 totaled \$122,357, \$117,819 and \$112,779, respectively, and the contributions paid by employees totaled \$24,706, \$22,383 and \$19,188, respectively.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued)

June 30, 2014 and 2013

### Note 4. Pension and Retirement Benefits (Continued)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. While ten-year trend information is not available, three-year trend information, for the years ended April 1, is presented as follows:

|   | <u>2014*</u> | <u>2013*</u> | <u>2012*</u> |
|---|--------------|--------------|--------------|
| Net assets available for benefits as percentages of the pension benefit obligations                               | 49%          | 47%          | 47%          |
| Prepaid (unfunded) pension benefit obligation as percentages of covered payroll                                   | (264%)       | (286%)       | (281%)       |
| Employer contributions (in accordance with actuarially determined requirements) as percentages of covered payroll | 24.45%       | 24.60%       | 23.51%       |
| Actuarial value of assets as a percentage of the actuarial accrued liability                                      | 47%          | 45%          | 45%          |
| Ratio of the unfunded accrued liability to annual covered payroll   | 284%         | 307%         | 300%         |
| Total unfunded accrued liability  | \$ 1,419,163 | 1,469,486    | 1,436,961    |
| Actuarial accrued liability   | \$ 2,690,472 | 2,669,494    | 2,620,479    |
| Actuarial value of plan assets  | \$ 1,271,309 | 1,200,008    | 1,183,518    |

\*An actuarial valuation was performed on April 1, 2013. Estimated values have been calculated as of April 1, 2014 and April 1, 2012.

For employees who choose not to participate in the Marshalltown Water Works' Supplemental Retirement and Pension Plan, 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.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 4. Pension and Retirement Benefits (Continued)

Plan members are required to contribute 5.95% of their annual covered salary and the Water Works is required to contribute 8.93% of covered payroll. Contribution requirements are established by state statute. The Water Works' contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$44,018, \$41,028, and \$36,382, respectively, equal to the required contributions for each year.

### Note 5. Other Postemployment Benefits (OPEB)

Plan Description – The Water Works operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 16 active members and no retired member's or spouses in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Water Works. The Water Works currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Water Works' annual OPEB cost is calculated based on the annual required contribution (ARC) of the Water Works. The Water Works has elected to calculate ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Water Works' annual OPEB cost for the years ended June 30, 2014 and 2013, the amounts actually contributed to the plan and changes in the Water Work's net OPEB obligation:

|  | <u>2014</u>      | <u>2013</u>   |
|--|------------------|---------------|
| Annual required contribution                 | \$ 14,773        | 14,773        |
| Interest on OPEB obligation                  | 2,485            | 1,895         |
| Adjustments to annual required contributions | (1,920)          | (1,920)       |
| Annual OPEB cost                             | <u>15,338</u>    | <u>14,748</u> |
| Contributions made                           | -                | -             |
| Increase in net OPEB obligation              | <u>15,338</u>    | <u>14,748</u> |
| Net OPEB obligation beginning of year        | 62,134           | 47,386        |
| Net OPEB obligation end of year              | <u>\$ 77,472</u> | <u>62,134</u> |

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 5. Other Postemployment Benefits (OPEB) (continued)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Water Works contributed \$119,140 to the medical plan. Plan members eligible for benefits contributed \$35,529 or 23% of the premium costs.

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2009                | \$ 14,815        | 22.9%                                      | \$ 11,425           |
| 2010                | 14,611           | 25.2%                                      | 22,359              |
| 2011                | 14,416           | 24.8%                                      | 33,205              |
| 2012                | 14,181           | 0.0%                                       | 47,386              |
| 2013                | 14,748           | 0.0%                                       | 62,134              |
| 2014                | 15,338           | 0.0%                                       | 77,472              |

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$90,876, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$90,876. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$862,042 and the ratio of the UAAL to covered payroll was 10.5 %. As of June 30, 2014 and 2013 there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 5. Other Postemployment Benefits (OPEB) (continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Mortality rates are from the 2004 United States Life Tables, applied on a gender-specific basis. Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for benefits.

Projected claim costs of the medical plan are \$382 per month for single retirees and \$764 per month for retirees and spouse. These costs were determined from the estimated age-adjusted premium rates of the plan and the method provided by the alternative measurement method under GASB 45. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

### Note 6. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for 2014 and 2013. There have been no reductions in insurance coverage from prior years.

### Note 7. Concentrations of Credit Risk

Concentrations of credit risk with respect to accounts receivable is limited due to the large number of customers comprising the Water Works' customer base and the Water Works' policy of receiving a deposit amount or a credit reference from another utility before beginning service. However, some risk exists due to the small geographic location of all the receivable.

# MARSHALLTOWN WATER WORKS

## Notes to Financial Statements (Continued) June 30, 2014 and 2013

### Note 8. Capital Assets

Capital assets are stated at cost as follows at June 30:

|                                  | <u>2014</u>          | <u>2013</u>         |
|----------------------------------|----------------------|---------------------|
| Land                             | \$ 1,112,721         | 1,112,721           |
| Plant and source of supply       | 9,863,709            | 9,790,908           |
| Booster station                  | 165,996              | 161,072             |
| Distribution system and pipe     | 10,975,220           | 10,700,384          |
| Meters                           | 1,264,535            | 1,247,451           |
| Machinery and equipment          | 400,048              | 390,920             |
| Vehicles                         | 198,429              | 198,429             |
| Capital improvements             | 82,655               | 82,655              |
| Capital improvements - buildings | 572,779              | 569,769             |
| Office equipment and furnishings | 386,661              | 376,331             |
|                                  | <u>25,022,753</u>    | <u>24,630,640</u>   |
| Less accumulated depreciation    | <u>(13,721,514)</u>  | <u>(13,140,773)</u> |
|                                  | <u>\$ 11,301,239</u> | <u>11,489,867</u>   |

Depreciation expense was \$589,875 for the year ended June 30, 2014 and \$623,220 for the year ended June 30, 2013.

### Note 9. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which 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 significant liability for the government's proportionate share of the employee pension plan.

### Note 10. Date of Management Evaluation

Management has evaluated subsequent events through September 16, 2014, the date on which the financial statements were available to be issued.

## Required Supplementary Information

# MARSHALLTOWN WATER WORKS

## Budgetary Comparison Schedule of Revenues, Expenses and Changes in Balances - Budget to Actual Required Supplementary Information For the Year Ended June 30, 2014

|                                | <u>Actual</u>        | <u>Budgeted<br/>Amounts<br/>Original/Final</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--------------------------------|----------------------|--|---|
| <b>Revenues:</b>               |                      |  |   |
| Charges for services           | \$ 3,383,129         | 3,461,675                                      | (78,546)  |
| Miscellaneous                  | 16,638               | 26,000   | (9,362)   |
| Total revenues                 | <u>3,399,767</u>     | <u>3,487,675</u>                               | <u>(87,908)</u>                                 |
| <b>Expenses:</b>               |                      |  |   |
| Business type activities       | <u>3,293,149</u>     | <u>3,487,563</u>                               | <u>194,414</u>                                  |
| Increase in net position       | 106,618              | 112  | 106,506   |
| Net position beginning of year | <u>13,124,953</u>    | <u>2,278,371</u>                               | <u>10,846,582</u>                               |
| Net position end of year       | <u>\$ 13,231,571</u> | <u>2,278,483</u>                               | <u>10,953,088</u>                               |

# **MARSHALLTOWN WATER WORKS**

## **Notes to Required Supplementary Information – Budgetary Reporting June 30, 2014**

In accordance with the Code of Iowa, the Water Works' Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

There were no budget amendments for the Water Works during fiscal year 2014.

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

# MARSHALLTOWN WATER WORKS

## Schedule of Funding Progress for the Retiree Health Plan Required Supplementary Information

| Year<br>Ended<br>June 30, | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2009                      | July 1, 2008                   | -                                      | \$ 95,737   | \$ 95,737                          | 0.0%                     | \$ 822,816                | 11.6%   |
| 2010                      | July 1, 2008                   | -                                      | 95,737  | 95,737                             | 0.0%                     | 754,252                   | 12.7%   |
| 2011                      | July 1, 2008                   | -                                      | 95,737  | 95,737                             | 0.0%                     | 764,580                   | 12.5%   |
| 2012                      | July 1, 2011                   | -                                      | 90,876  | 90,876                             | 0.0%                     | 867,121                   | 10.5%   |
| 2013                      | July 1, 2011                   | -                                      | 90,876  | 90,876                             | 0.0%                     | 922,135                   | 9.9%  |
| 2014                      | July 1, 2011                   | -                                      | 90,876  | 90,876                             | 0.0%                     | 862,042                   | 10.5%   |

See Note 5 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## Supplementary Information

# MARSHALLTOWN WATER WORKS

## Schedules of Net Position Detail June 30, 2014 and 2013

|  | <u>2014</u>          | <u>2013</u>       | <u>Increase<br/>(Decrease)</u> |
|--|----------------------|-------------------|--------------------------------|
| <b>Cash:</b>   |                      |                   |                                |
| Cash on hand   | \$ 330               | 330               | -                              |
| Petty cash   | 300                  | 300               | -                              |
| Cash in bank   | 1,234,970            | 1,023,592         | 211,378                        |
| Water deposits   | 67,940               | 60,785            | 7,155                          |
|  | <u>1,303,540</u>     | <u>1,085,007</u>  | <u>218,533</u>                 |
| <b>Cash held for city:</b>                                     |                      |                   |                                |
| Sewer deposit fund   | 92,205               | 82,280            | 9,925                          |
| Sewer cash   | 263,300              | 206,442           | 56,858                         |
| Storm sewer cash   | 49,815               | 19,940            | 29,875                         |
| Landfill cash  | 11,209               | 10,037            | 1,172                          |
| Total cash held for city                                       | <u>416,529</u>       | <u>318,699</u>    | <u>97,830</u>                  |
| <br>   |                      |                   |                                |
| Total cash and cash equivalents                                | <u>\$ 1,720,069</u>  | <u>1,403,706</u>  | <u>316,363</u>                 |
| <b>Capital assets:</b>   |                      |                   |                                |
| Land   | \$ 1,112,721         | 1,112,721         | -                              |
| Plant and source of supply                                     | 9,863,709            | 9,790,908         | 72,801                         |
| Accumulated depreciation - plant                               | (8,039,863)          | (7,684,479)       | (355,384)                      |
| Distribution system and pipe                                   | 10,975,220           | 10,700,384        | 274,836                        |
| Accumulated depreciation - distribution                        | (3,374,693)          | (3,244,785)       | (129,908)                      |
| Booster station  | 165,996              | 161,072           | 4,924                          |
| Accumulated depreciation-booster station                       | (73,258)             | (70,875)          | (2,383)                        |
| Meters   | 1,264,535            | 1,247,451         | 17,084                         |
| Accumulated depreciation - meters                              | (1,004,524)          | (970,831)         | (33,693)                       |
| Machinery and equipment  | 400,048              | 390,920           | 9,128                          |
| Accumulated depreciation - machinery<br>and equipment          | (340,171)            | (321,475)         | (18,696)                       |
| Vehicles   | 198,429              | 198,429           | -                              |
| Accumulated depreciation - vehicles                            | (141,876)            | (119,024)         | (22,852)                       |
| Capital improvements   | 82,654               | 82,655            | (1)                            |
| Accumulated depreciation - capital<br>improvements             | (38,305)             | (34,024)          | (4,281)                        |
| Capital improvements - buildings                               | 572,779              | 569,769           | 3,010                          |
| Accumulated depreciation - buildings                           | (346,628)            | (329,940)         | (16,688)                       |
| Office equipment and furnishings                               | 386,662              | 376,331           | 10,331                         |
| Accumulated depreciation - office<br>equipment and furnishings | <u>(362,196)</u>     | <u>(365,340)</u>  | <u>3,144</u>                   |
| <br>   |                      |                   |                                |
| Net capital assets   | <u>\$ 11,301,239</u> | <u>11,489,867</u> | <u>(188,628)</u>               |

# MARSHALLTOWN WATER WORKS

## Schedules of Net Position Detail (Continued) June 30, 2014 and 2013

|  | <u>2014</u>              | <u>2013</u>           | <u>Increase<br/>(Decrease)</u> |
|--|--------------------------|-----------------------|--------------------------------|
| <b>Prepaid expenses:</b>                   |                          |                       |                                |
| Prepaid insurance                          | \$ 14,655                | 10,459                | 4,196                          |
| Prepaid computer maintenance               | 18,807                   | 17,225                | 1,582                          |
| Prepaid billing supplies                   | <u>3,056</u>             | <u>2,866</u>          | <u>190</u>                     |
| <b>Total prepaid expenses</b>              | <b><u>\$ 36,518</u></b>  | <b><u>30,550</u></b>  | <b><u>5,968</u></b>            |
| <b>Other receivables:</b>                  |                          |                       |                                |
| Miscellaneous accounts receivable billings | \$ 30,010                | 29,455                | 555                            |
| Interest receivable                        | 907                      | 1,051                 | (144)                          |
| Contract receivables                       | <u>971</u>               | <u>2,423</u>          | <u>(1,452)</u>                 |
| <b>Total other receivables</b>             | <b><u>\$ 31,888</u></b>  | <b><u>32,929</u></b>  | <b><u>(1,041)</u></b>          |
| <b>Accrued liabilities:</b>                |                          |                       |                                |
| Accrued sales tax                          | \$ 14,292                | 12,854                | 1,438                          |
| Accrued F.I.C.A.                           | 3,243                    | 2,614                 | 629                            |
| Accrued payroll                            | 44,214                   | 35,734                | 8,480                          |
| Accrued pension                            | 1,843                    | 1,551                 | 292                            |
| Accrued vacation                           | 95,789                   | 106,173               | (10,384)                       |
| Accrued retirement expense                 | 1,988                    | 1,505                 | 483                            |
| Insurance deductible                       | <u>(37,471)</u>          | <u>(30,125)</u>       | <u>(7,346)</u>                 |
| <b>Total accrued liabilities</b>           | <b><u>\$ 123,898</u></b> | <b><u>130,306</u></b> | <b><u>(6,408)</u></b>          |

# MARSHALLTOWN WATER WORKS

## Schedules of Treatment Plant Expenses For the Years Ended June 30, 2014 and 2013

|                      | <u>2014</u>       | <u>2013</u>    | <u>Increase<br/>(Decrease)</u> |
|----------------------|-------------------|----------------|--------------------------------|
| Salaries:            |                   |                |                                |
| Operational          | \$ <u>376,809</u> | <u>363,236</u> | <u>13,573</u>                  |
| Employee benefits:   |                   |                |                                |
| Health insurance     | 48,320            | 42,750         | 5,570                          |
| Pension              | 55,302            | 55,330         | (28)                           |
| Social security      | 27,567            | 26,571         | 996                            |
| Life insurance       | 893               | 804            | 89                             |
| Mileage              | 248               | 45             | 203                            |
| Registration         | 1,734             | 2,894          | (1,160)                        |
| Lodging              | 1,453             | 1,077          | 376                            |
| Safety clothing      | 1,980             | 686            | 1,294                          |
| Safety training      | -                 | 63             | (63)                           |
| Dues                 | 450               | 167            | 283                            |
| Food                 | 409               | 541            | (132)                          |
| Travel               | 1,087             | 362            | 725                            |
|                      | <u>139,443</u>    | <u>131,290</u> | <u>8,153</u>                   |
| Utilities:           |                   |                |                                |
| Electric             | 221,186           | 218,739        | 2,447                          |
| Gas                  | 13,658            | 12,146         | 1,512                          |
| Internet             | 321               | 369            | (48)                           |
| Telephone            | 1,314             | 1,328          | (14)                           |
|                      | <u>236,479</u>    | <u>232,582</u> | <u>3,897</u>                   |
| Depreciation:        |                   |                |                                |
| Plant depreciation   | 355,383           | 379,959        | (24,576)                       |
| Vehicle depreciation | 5,538             | 5,538          | -                              |
|                      | <u>360,921</u>    | <u>385,497</u> | <u>(24,576)</u>                |
| Fuels:               |                   |                |                                |
| Gas                  | 2,016             | 2,519          | (503)                          |
| Diesel fuel          | 33                | 216            | (183)                          |
|                      | <u>2,049</u>      | <u>2,735</u>   | <u>(686)</u>                   |
| Supplies:            |                   |                |                                |
| Lab supplies         | 20,264            | 18,476         | 1,788                          |
| Plant supplies       | 437               | 698            | (261)                          |

# MARSHALLTOWN WATER WORKS

## Schedules of Treatment Plant Expenses (Continued) For the Years Ended June 30, 2014 and 2013

|   | <u>2014</u>         | <u>2013</u>      | <u>Increase<br/>(Decrease)</u> |
|---|---------------------|------------------|--------------------------------|
| <b>Supplies (continued):</b>            |                     |                  |                                |
| Building supplies                       | 83                  | 215              | (132)                          |
| Well supplies                           | 55                  | 450              | (395)                          |
| Cleaning supplies                       | 7                   | 261              | (254)                          |
| General supplies                        | 1,207               | 1,367            | (160)                          |
| Health and first aid                    | 209                 | 391              | (182)                          |
| Operational fees and permits            | 1,025               | 115              | 910                            |
| CIWA meter pit supplies                 | 1,889               | 182              | 1,707                          |
| Safety equipment                        | 233                 | 204              | 29                             |
|   | <u>25,409</u>       | <u>22,359</u>    | <u>3,050</u>                   |
| <b>Maintenance:</b>                     |                     |                  |                                |
| Building maintenance                    | 5,369               | 4,112            | 1,257                          |
| Machinery maintenance                   | 12,337              | 12,645           | (308)                          |
| Heating and air conditioner maintenance | 630                 | 965              | (335)                          |
| Computer maintenance                    | 1,883               | 709              | 1,174                          |
| Grounds maintenance                     | 2,896               | 1,402            | 1,494                          |
| Well field maintenance                  | 2,363               | 4,179            | (1,816)                        |
| Safety equipment maintenance            | 260                 | 447              | (187)                          |
| CIWA meter pit maintenance              | 1,436               | -                | 1,436                          |
| Vehicle maintenance                     | 1,011               | 836              | 175                            |
|   | <u>28,185</u>       | <u>25,295</u>    | <u>2,890</u>                   |
| <b>Chemicals:</b>                       |                     |                  |                                |
| Pebble-lime                             | 252,518             | 248,950          | 3,568                          |
| CO2                                     | 16,871              | 23,783           | (6,912)                        |
| CL2                                     | 38,597              | 37,346           | 1,251                          |
| Fluoride                                | 20,249              | 16,344           | 3,905                          |
| Poly-phosphate                          | 13,198              | 13,124           | 74                             |
| Lime sludge removal                     | 302,257             | 272,636          | 29,621                         |
| Sodium chlorite                         | 15,200              | 10,018           | 5,182                          |
|   | <u>658,890</u>      | <u>622,201</u>   | <u>36,689</u>                  |
| <b>Contract services:</b>               |                     |                  |                                |
| Lab services                            | 6,950               | 2,214            | 4,736                          |
|   | <u>6,950</u>        | <u>2,214</u>     | <u>4,736</u>                   |
| <b>Total treatment plant</b>            | <b>\$ 1,835,135</b> | <b>1,787,409</b> | <b>47,726</b>                  |

# MARSHALLTOWN WATER WORKS

## Schedules of Construction and Maintenance Expenses For the Years Ended June 30, 2014 and 2013

|                              | <u>2014</u>       | <u>2013</u>    | <u>Increase<br/>(Decrease)</u> |
|------------------------------|-------------------|----------------|--------------------------------|
| <b>Salaries:</b>             |                   |                |                                |
| General salaries             | \$ <u>212,945</u> | <u>203,950</u> | <u>8,995</u>                   |
| <b>Employee benefits:</b>    |                   |                |                                |
| Health insurance             | 28,520            | 25,495         | 3,025                          |
| Pension                      | 36,366            | 32,986         | 3,380                          |
| Social security              | 16,111            | 15,454         | 657                            |
| Life insurance               | 487               | 432            | 55                             |
| Mileage                      | 62                | -              | 62                             |
| Registration                 | 351               | 650            | (299)                          |
| Food                         | 44                | 8              | 36                             |
| Lodging                      | 292               | 319            | (27)                           |
| Medical                      | -                 | 114            | (114)                          |
| Health and first aid         | 307               | -              | 307                            |
| Safety clothing              | 1,676             | 1,603          | 73                             |
| Safety training              | 600               | 63             | 537                            |
|                              | <u>84,816</u>     | <u>77,124</u>  | <u>7,692</u>                   |
| <b>Depreciation:</b>         |                   |                |                                |
| Distribution depreciation    | 129,908           | 132,331        | (2,423)                        |
| Vehicle depreciation         | 8,657             | 13,328         | (4,671)                        |
| Booster station depreciation | 2,383             | 1,797          | 586                            |
| Equipment depreciation       | 18,696            | 26,485         | (7,789)                        |
|                              | <u>159,644</u>    | <u>173,941</u> | <u>(14,297)</u>                |
| <b>Fuels:</b>                |                   |                |                                |
| Gas                          | 4,736             | 3,784          | 952                            |
| Oil                          | 369               | 794            | (425)                          |
| Grease                       | 85                | 67             | 18                             |
| Diesel fuel                  | 8,650             | 5,838          | 2,812                          |
|                              | <u>13,840</u>     | <u>10,483</u>  | <u>3,357</u>                   |

# MARSHALLTOWN WATER WORKS

## Schedules of Construction and Maintenance Expenses (Continued) For the Years Ended June 30, 2014 and 2013

|  | <u>2014</u>       | <u>2013</u>    | <u>Increase<br/>(Decrease)</u> |
|--|-------------------|----------------|--------------------------------|
| <b>Supplies:</b>                       |                   |                |                                |
| Distribution supplies                  | 1,849             | 5,942          | (4,093)                        |
| Shop supplies                          | 2,475             | 1,977          | 498                            |
| Leak repair supplies                   | 109,138           | 29,805         | 79,333                         |
| Hydrant and valve supplies             | 2,525             | 4,073          | (1,548)                        |
| Safety equipment                       | 219               | 343            | (124)                          |
| Data processing supplies               | -                 | 110            | (110)                          |
|  | <u>116,206</u>    | <u>42,250</u>  | <u>73,956</u>                  |
| <b>Maintenance:</b>                    |                   |                |                                |
| Vehicle maintenance                    | 842               | 597            | 245                            |
| Equipment maintenance                  | 17,556            | 3,356          | 14,200                         |
| Computer maintenance                   | 837               | 820            | 17                             |
| Safety equipment maintenance           | 103               | -              | 103                            |
| Tower maintenance                      | 616               | 391            | 225                            |
| Well field maintenance                 | 31                | 9              | 22                             |
| Reservoir maintenance                  | -                 | 6              | (6)                            |
| Booster station maintenance            | 3,183             | 861            | 2,322                          |
|  | <u>23,168</u>     | <u>6,040</u>   | <u>17,128</u>                  |
| <br>Total construction and maintenance | <u>\$ 610,619</u> | <u>513,788</u> | <u>96,831</u>                  |

# MARSHALLTOWN WATER WORKS

## Schedules of Customer Service and Meter Expenses For the Years Ended June 30, 2014 and 2013

|                                  | <u>2014</u>              | <u>2013</u>           | <u>Increase<br/>(Decrease)</u> |
|----------------------------------|--------------------------|-----------------------|--------------------------------|
| <b>Salaries:</b>                 |                          |                       |                                |
| Salaries                         | \$ <u>131,753</u>        | <u>127,650</u>        | <u>4,103</u>                   |
| <b>Employee benefits:</b>        |                          |                       |                                |
| Health insurance                 | 24,780                   | 23,680                | 1,100                          |
| Pension                          | 18,733                   | 19,017                | (284)                          |
| Social security                  | 9,465                    | 9,115                 | 350                            |
| Life insurance                   | 309                      | 300                   | 9                              |
| Safety clothing                  | 290                      | 460                   | (170)                          |
| Safety training                  | 400                      | -                     | 400                            |
|                                  | <u>53,977</u>            | <u>52,572</u>         | <u>1,405</u>                   |
| <b>Depreciation:</b>             |                          |                       |                                |
| Vehicle depreciation             | 8,657                    | 2,515                 | 6,142                          |
| Meter depreciation               | 33,693                   | 33,355                | 338                            |
|                                  | <u>42,350</u>            | <u>35,870</u>         | <u>6,480</u>                   |
| <b>Fuels:</b>                    |                          |                       |                                |
| Gas                              | 5,390                    | 5,396                 | (6)                            |
| Oil                              | 85                       | 102                   | (17)                           |
| LP                               | 54                       | 36                    | 18                             |
|                                  | <u>5,529</u>             | <u>5,534</u>          | <u>(5)</u>                     |
| <b>Maintenance:</b>              |                          |                       |                                |
| Vehicle maintenance              | 315                      | 499                   | (184)                          |
| Equipment maintenance            | 165                      | 82                    | 83                             |
|                                  | <u>480</u>               | <u>581</u>            | <u>(101)</u>                   |
| <b>Supplies:</b>                 |                          |                       |                                |
| General supplies                 | 1,590                    | 2,361                 | (771)                          |
| Meter repair supplies            | 513                      | 1,773                 | (1,260)                        |
| Shop supplies                    | 53                       | 553                   | (500)                          |
| Service repair supplies          | 909                      | 2,106                 | (1,197)                        |
|                                  | <u>3,065</u>             | <u>6,793</u>          | <u>(3,728)</u>                 |
| Total customer service and meter | \$ <u><u>237,154</u></u> | <u><u>229,000</u></u> | <u><u>8,154</u></u>            |

# MARSHALLTOWN WATER WORKS

## Schedules of Administrative and Non-Operating Expenses For the Years Ended June 30, 2014 and 2013

|                                  | <u>2014</u>       | <u>2013</u>    | <u>Increase<br/>(Decrease)</u> |
|----------------------------------|-------------------|----------------|--------------------------------|
| <b>Salaries:</b>                 |                   |                |                                |
| Administrative salaries          | \$ <u>280,231</u> | <u>280,644</u> | <u>(413)</u>                   |
| <b>Employee benefits:</b>        |                   |                |                                |
| Health insurance                 | 16,240            | 16,670         | (430)                          |
| Pension                          | 53,028            | 56,406         | (3,378)                        |
| Social security                  | 20,422            | 20,511         | (89)                           |
| Life insurance                   | 738               | 718            | 20                             |
| Mileage                          | 2,814             | 2,745          | 69                             |
| Registration fees                | 1,017             | 330            | 687                            |
| Dues and subscriptions           | 5,573             | 4,979          | 594                            |
| Lodging                          | 288               | 512            | (224)                          |
| Safety clothing                  | -                 | 53             | (53)                           |
| Food                             | 81                | 71             | 10                             |
|                                  | <u>100,201</u>    | <u>102,995</u> | <u>(2,794)</u>                 |
| <b>Utilities:</b>                |                   |                |                                |
| Electricity                      | 8,340             | 7,357          | 983                            |
| Gas                              | 4,243             | 3,454          | 789                            |
| Internet expense                 | 168               | 238            | (70)                           |
| Telephone                        | 6,908             | 6,221          | 687                            |
|                                  | <u>19,659</u>     | <u>17,270</u>  | <u>2,389</u>                   |
| <b>Depreciation:</b>             |                   |                |                                |
| Building depreciation            | 16,688            | 16,542         | 146                            |
| Capital improvement depreciation | 4,281             | 4,281          | -                              |
| Equipment depreciation           | 5,991             | 7,089          | (1,098)                        |
|                                  | <u>26,960</u>     | <u>27,912</u>  | <u>(952)</u>                   |
| <b>General supplies:</b>         |                   |                |                                |
| Office supplies                  | 3,956             | 4,218          | (262)                          |
| Data processing supplies         | 622               | 1,822          | (1,200)                        |
| General supplies                 | 4,725             | 5,362          | (637)                          |
| Operational fees and permits     | 4,039             | 4,996          | (957)                          |
| Health and first aid             | 1,301             | 1,173          | 128                            |
|                                  | <u>14,643</u>     | <u>17,571</u>  | <u>(2,928)</u>                 |

# MARSHALLTOWN WATER WORKS

## Schedules of Administrative and Non-Operating Expenses (Continued) For the Years Ended June 30, 2014 and 2013

|   | <u>2014</u>              | <u>2013</u>           | <u>Increase<br/>(Decrease)</u> |
|---|--------------------------|-----------------------|--------------------------------|
| <b>Maintenance:</b>                     |                          |                       |                                |
| Computer maintenance                    | 27,017                   | 25,548                | 1,469                          |
| Office machine maintenance              | 2,353                    | 2,804                 | (451)                          |
| Heating and air conditioner maintenance | 287                      | 3                     | 284                            |
| Storm sewer                             | 929                      | -                     | 929                            |
| Building maintenance                    | <u>1,276</u>             | <u>2,325</u>          | <u>(1,049)</u>                 |
|   | <u>31,862</u>            | <u>30,680</u>         | <u>1,182</u>                   |
| <b>Administrative expenses:</b>         |                          |                       |                                |
| Insurance                               | 57,095                   | 66,425                | (9,330)                        |
| Banking services                        | 5,596                    | 5,001                 | 595                            |
| Legal services                          | 7,455                    | 6,770                 | 685                            |
| Cleaning services                       | 5,652                    | 5,589                 | 63                             |
| Accounting services                     | 7,950                    | 10,695                | (2,745)                        |
| Postage                                 | 17,593                   | 17,507                | 86                             |
| Public notices                          | 2,579                    | 2,901                 | (322)                          |
| Contract services                       | <u>1,313</u>             | <u>1,222</u>          | <u>91</u>                      |
|   | <u>105,233</u>           | <u>116,110</u>        | <u>(10,877)</u>                |
| <b>Total administrative expenses</b>    | <b><u>\$ 578,789</u></b> | <b><u>593,182</u></b> | <b><u>(14,393)</u></b>         |
| <b>Non-operating expenses:</b>          |                          |                       |                                |
| Interest expense                        | \$ 7,214                 | 14,300                | (7,086)                        |
| Board compensation                      | 900                      | 900                   | -                              |
| Miscellaneous                           | 15,338                   | 14,748                | 590                            |
| Economic development                    | <u>8,000</u>             | <u>8,000</u>          | <u>-</u>                       |
| <b>Total non-operating expenses</b>     | <b><u>\$ 31,452</u></b>  | <b><u>37,948</u></b>  | <b><u>(6,496)</u></b>          |

# MARSHALLTOWN WATER WORKS

## Schedules of Indebtedness For the Year Ended June 30, 2014

|                                   | <u>Revenue Note</u> |
|-----------------------------------|---------------------|
| Date of issue                     | April 15, 2009      |
| Interest rate                     | 3.25%               |
| Original amount                   | \$ <u>1,025,000</u> |
| Balance, beginning of year        | \$ 225,000          |
| Issued during year                | -                   |
| Redeemed during year              | <u>225,000</u>      |
| Balance, end of year              | \$ <u>-</u>         |
| Current portion (due in one year) | \$ <u>-</u>         |

## For the Year Ended June 30, 2013

|                                   | <u>Revenue Note</u> |
|-----------------------------------|---------------------|
| Date of issue                     | April 15, 2009      |
| Interest rates                    | 3.25%               |
| Original amount                   | \$ <u>1,025,000</u> |
| Balance, beginning of year        | \$ 440,000          |
| Issued during year                | -                   |
| Redeemed during year              | <u>215,000</u>      |
| Balance, end of year              | \$ <u>225,000</u>   |
| Current portion (due in one year) | \$ <u>225,000</u>   |



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report on  
Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on Audits  
of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees of the  
Marshalltown Water Works  
Marshalltown, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of Marshalltown Water Works, as of and for the years ended June 30, 2014 and 2013, and the related Notes to Financial Statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Marshalltown Water Works' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marshalltown Water Works internal control. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Water Works' internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works' operations for the years ended June 30, 2014 and 2013 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Water Works. Since our audits were 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.

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 Water Works' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Works' 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 Marshalltown Water Works during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
September 16, 2014

# MARSHALLTOWN WATER WORKS

## Schedule of Findings Years Ended June 30, 2014 and 2013

### Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

### Part II: Other Findings Related to Required Statutory Reporting:

- 14-II-A Certified Budget - Expenditures during the years ended June 30, 2014 and 2013, did not exceed the amounts budgeted.
- 14-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 14-II-C Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.
- 14-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.
- 14-II-E Bond Coverage - Surety bond coverage of Water Works officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 14-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 14-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.

# MARSHALLTOWN WATER WORKS

## Audit Staff

This report was prepared by:

**BOWMAN AND MILLER, P.C.**  
Certified Public Accountants  
Marshalltown, Iowa

### Personnel:

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