

CLEAR LAKE SANITARY DISTRICT
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	9 - 10
Statement of Cash Flows	11
Notes to Financial Statements	12 - 17
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)	18
Budget to GAAP Reconciliation	19
Notes to Required Supplementary Information - Budgetary Reporting	20
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	21 - 22
Schedule of Findings	23

**CLEAR LAKE SANITARY DISTRICT
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees (as of June 30, 2014)		
John R. Miller	President/Trustee	January 1, 2019
Tim Clark	Vice President/Trustee	January 1, 2019
Robert Wolfram	Clerk/Trustee	January 1, 2015
Lothar Meyer	Treasurer/Trustee	January 1, 2017
Steve Lahner	Trustee	January 1, 2017
Attorney		
Richard S. Piscopo, Jr.		
Administrator		
Kevin Moler		

Independent Auditor's Report

To the Board of Trustees
Clear Lake Sanitary District

Report on the Financial Statements

We have audited the accompanying financial statements of the Clear Lake Sanitary District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant 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 respective financial position of the Clear Lake Sanitary District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 18-19 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Clear Lake Sanitary District's internal control over financial reporting and 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 Clear Lake Sanitary District's internal control over financial reporting and compliance.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, IA

December 10, 2014

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2014

The Clear Lake Sanitary District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The District's operating revenues increased 0.7%, or \$17,972, from fiscal year 2013 to fiscal year 2014.
- The District's operating expenses were 14.7%, or \$311,152, more in fiscal year 2014 than in fiscal year 2013.
- The District's net position increased 0.6%, or \$96,572, from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the District's operating revenues and expenses, non-operating revenues and expenses and whether the District's financial position has improved or deteriorated as a result of the year's activities.
- The Statement of Cash Flows presents the change in the District's cash and cash equivalents during the year. This information can assist readers of the report in determining how the District financed its activities and how it met its cash requirements.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of fiscal year 2014 totaled approximately \$16,602,000. This compares to approximately \$16,505,000 at the end of fiscal year 2013. For 2014, unrestricted net position totaled approximately \$15,986,000 and restricted net position totaled approximately \$616,000.

**CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2014**

A summary of the District's net position is presented below.

Net Position		
	June 30,	
	2014	2013
Current assets	\$ 2,038,351	\$ 2,760,784
Capital assets, at cost, less accumulated depreciation	15,325,393	15,963,783
Noncurrent assets	<u>2,287,698</u>	<u>1,511,156</u>
Total assets	<u>19,651,442</u>	<u>20,235,723</u>
Current liabilities	1,204,663	985,516
Noncurrent liabilities	<u>1,845,000</u>	<u>2,745,000</u>
Total liabilities	<u>3,049,663</u>	<u>3,730,516</u>
Net position:		
Unrestricted	15,985,763	15,887,525
Restricted	<u>616,016</u>	<u>617,682</u>
Total net position	<u>\$ 16,601,779</u>	<u>\$ 16,505,207</u>

The unrestricted portion of the District's net position (96%) may be used to meet the District's obligations as they come due. The remaining net position is restricted for the Sinking Fund, Reserve Fund, Debt Service Fund, Sewer Revenue Improvement Fund and County Sewer Line Fund.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues are received for property taxes and for sewer rental and connection fees. Operating expenses are expenses paid to operate the District. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013 is presented below.

Changes in Net Position		
	Year ended June 30,	
	2014	2013
Operating revenues:		
Property taxes	\$ 812,036	\$ 765,948
Sewer rentals and connection fees	1,393,570	1,417,039
Other operating revenues	<u>397,327</u>	<u>401,974</u>
Total operating revenues	<u>2,602,933</u>	<u>2,584,961</u>
Operating expenses:		
Salaries	518,998	484,618
Payroll taxes and employee benefit	231,877	205,320
Office supplies	26,269	25,351
Professional fees	18,979	16,512
Printing and postage	19,939	23,159
Insurance	43,812	43,167
Dues and subscriptions	4,051	5,385
Trustee fees	8,900	10,100
Telephone	5,911	5,758
Education and training	2,864	2,670

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2014

Travel and mileage	3,316	3,757
Repairs and maintenance	316,456	99,854
Engineering	807	5,729
Utilities	197,449	168,848
Sludge disposal	24,892	15,291
Programming	5,476	5,655
Plant and laboratory supplies	70,447	67,958
Depreciation	907,454	916,989
County sewer	15,122	7,976
Miscellaneous	<u>8,486</u>	<u>6,256</u>
Total operating expenses	<u>2,431,505</u>	<u>2,120,353</u>
Operating income	<u>171,428</u>	<u>464,608</u>
Non-operating revenues (expenses):		
Interest income	2,243	3,574
Gain on disposal of capital asset	(658)	0
Interest expense and fees	<u>(76,441)</u>	<u>(85,897)</u>
Net non-operating (expenses)	<u>(74,856)</u>	<u>(82,323)</u>
Change in net position	96,572	382,285
Net position, beginning of year	<u>16,505,207</u>	<u>16,122,922</u>
Net position, end of year	<u>\$ 16,601,779</u>	<u>\$ 16,505,207</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year with an increase in net position at the end of the fiscal year. In fiscal year 2014, operating revenues increased \$17,972, or 0.7%. Operating expenses increased \$311,152, or 14.7%.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes property taxes and sewer rental and connection fees reduced by payments to employees and to suppliers. Cash used by capital and related financing activities includes long-term debt payments and the purchase of capital assets. Cash used by investing activities includes purchases and sales of certificates of deposit and interest income.

CAPITAL ASSETS

At June 30, 2014 the District had approximately \$15,325,000 invested in capital assets, net of accumulated depreciation of approximately \$17,299,000. Depreciation expense totaled \$907,454 for fiscal 2014. More detailed information about the District's capital assets is presented in Note 8 to the financial statements.

LONG-TERM DEBT

At June 30, 2014, the District had \$1,575,000 in general obligation bonds outstanding, a decrease of \$510,000 from 2013. The District also had \$1,170,000 in revenue bonds outstanding, a decrease of \$380,000 from 2013. Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2014

The Constitution of the State of Iowa limits the amount of general obligation debt sanitary districts can issue to 5% of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt of \$1,575,000 is significantly below its constitutional debt limit of approximately \$23,000,000.

ECONOMIC FACTORS

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

- Facilities at the District require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up-to-date technology at a reasonable cost.

The District anticipates the current fiscal year will be much like the last fiscal year and will maintain a close watch over resources to maintain the District's ability to react to unknown issues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clear Lake Sanitary District, 5631 235th Street, Clear Lake, Iowa 50428.

Basic Financial Statements

CLEAR LAKE SANITARY DISTRICT
Statement of Net Position
June 30, 2014

ASSETS

Current assets:		
Cash	\$	497,070
Investments		1,347,556
Receivables:		
Accounts		73,166
Taxes		7,587
Delinquent special assessment		59,054
Interest		30,883
Prepaid expenses		23,035
Total current assets		2,038,351
Noncurrent assets:		
Investments		2,137,901
Note receivable		98,871
Unamortized bond issuance costs		50,926
Capital assets (net of accumulated depreciation)		15,325,393
Total noncurrent assets		17,613,091
TOTAL ASSETS		\$ 19,651,442

LIABILITIES

Current liabilities:		
Accounts payable	\$	203,583
Salaries and benefits payable		26,718
Current portion of general obligation bonds payable		515,000
Current portion of revenue bonds payable		385,000
Accrued liabilities		74,362
Total current liabilities		1,204,663
Noncurrent liabilities:		
General obligation bonds payable, less current portion		1,060,000
Revenue notes payable, less current portion		785,000
Total noncurrent liabilities		1,845,000
Total Liabilities		3,049,663

NET POSITION

Unrestricted:		
Operations and maintenance fund		-
Board designated:		
Revenue fund		125,000
Capital improvement fund		12,671,549
Replacement fund		3,189,214
Total unrestricted net position		15,985,763
Restricted:		
Sinking fund		34,019
Reserve fund		266,000
Sewer revenue improvement fund		250,000
Debt service fund		15,251
County sewer line fund		50,746
Total restricted net position		616,016
Total Net Position		16,601,779
TOTAL LIABILITES AND NET POSITION		\$ 19,651,442

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2014

	Major Funds				
	Revenue Fund	Operations & Maintenance Fund	Sinking Fund	Reserve Fund	Capital Improvement Fund
Operating revenues:					
Real estate and personal property taxes	\$ 812,036	\$ -	\$ -	\$ -	\$ -
Sewer rentals and connection fees	1,393,570	-	-	-	-
Interest on investments	1,411	-	-	-	-
Alliant project	263,516	-	-	-	-
County sewer	20,340	-	-	-	-
Other operating revenues	<u>76,612</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>2,567,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating expenses:					
Salaries	-	518,998	-	-	-
Payroll taxes and employee benefits	-	231,877	-	-	-
Office supplies	-	26,269	-	-	-
Professional fees	-	18,979	-	-	-
Printing and postage	-	19,939	-	-	-
Insurance	-	43,812	-	-	-
Dues and subscriptions	-	4,051	-	-	-
Trustee fees	-	8,900	-	-	-
Telephone	-	5,911	-	-	-
Education and training	-	2,864	-	-	-
Travel and mileage	-	3,316	-	-	-
Repairs and maintenance	-	310,423	-	-	-
Engineering	-	807	-	-	-
Utilities	-	197,449	-	-	-
Sludge disposal	-	24,892	-	-	-
Programming	-	5,476	-	-	-
Plant and laboratory supplies	-	70,447	-	-	-
Depreciation	-	-	-	-	907,454
County sewer	-	-	-	-	-
Miscellaneous	<u>-</u>	<u>8,486</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>-</u>	<u>1,502,896</u>	<u>-</u>	<u>-</u>	<u>907,454</u>
Operating income	<u>2,567,485</u>	<u>(1,502,896)</u>	<u>-</u>	<u>-</u>	<u>(907,454)</u>
Non-operating revenues (expenses):					
Interest income	2,243	-	-	-	-
Interest expense, amortization and fees	-	-	(35,889)	-	-
Loss on disposal of fixed asset	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(658)</u>
Net non-operating revenues (expenses)	<u>2,243</u>	<u>-</u>	<u>(35,889)</u>	<u>-</u>	<u>(658)</u>
Change in net position	2,569,728	(1,502,896)	(35,889)	-	(908,112)
Transfers in (out)	(2,569,728)	1,502,896	35,878	-	801,907
Net position, beginning of year	<u>125,000</u>	<u>-</u>	<u>34,030</u>	<u>266,000</u>	<u>12,777,754</u>
Net position, end of year	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 34,019</u>	<u>\$ 266,000</u>	<u>\$12,671,549</u>

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2014

Debt Service Fund	Major Funds		Nonmajor Fund	Total
	Sewer Revenue Improvement Fund	Replacement Fund	County Sewer Line Fund	
\$ -	\$ -	\$ -	\$ -	\$ 812,036
-	-	-	-	1,393,570
-	-	35,448	-	36,859
-	-	-	-	263,516
-	-	-	-	20,340
-	-	-	-	<u>76,612</u>
-	-	<u>35,448</u>	-	<u>2,602,933</u>
-	-	-	-	518,998
-	-	-	-	231,877
-	-	-	-	26,269
-	-	-	-	18,979
-	-	-	-	19,939
-	-	-	-	43,812
-	-	-	-	4,051
-	-	-	-	8,900
-	-	-	-	5,911
-	-	-	-	2,864
-	-	-	-	3,316
-	-	6,033	-	316,456
-	-	-	-	807
-	-	-	-	197,449
-	-	-	-	24,892
-	-	-	-	5,476
-	-	-	-	70,447
-	-	-	-	907,454
-	-	-	15,122	15,122
-	-	-	-	<u>8,486</u>
-	-	<u>6,033</u>	<u>15,122</u>	<u>2,431,505</u>
-	-	<u>29,415</u>	<u>(15,122)</u>	<u>171,428</u>
-	-	-	-	2,243
(40,552)	-	-	-	(76,441)
-	-	-	-	(658)
<u>(40,552)</u>	-	-	-	<u>(74,856)</u>
(40,552)	-	29,415	(15,122)	96,572
31,179	2,500	175,028	20,340	-
<u>24,624</u>	<u>247,500</u>	<u>2,984,771</u>	<u>45,528</u>	<u>16,505,207</u>
<u>\$ 15,251</u>	<u>\$ 250,000</u>	<u>\$ 3,189,214</u>	<u>\$ 50,746</u>	<u>\$16,601,779</u>

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from real estate and personal property taxes	\$ 811,602
Cash received from sewer rentals and connection fees	1,387,673
Cash received from other revenues	394,117
Cash paid to suppliers for goods and services	(761,548)
Cash paid to employees and trustees for services	<u>(520,132)</u>
Net cash provided by operating activities	<u>1,311,712</u>
Cash flows from capital and related financing activities:	
Principal paid on revenue notes	(380,000)
Interest and fees paid on revenue notes	(28,442)
Principal paid on general bonds	(510,000)
Interest and fees paid on general bonds	(30,540)
Payments for work in progress	(77,518)
Purchase of capital assets	<u>(192,204)</u>
Net cash used by capital and related financing activities	<u>(1,218,704)</u>
Cash flows from investing activities:	
Purchase of certificates of deposit	(2,152,623)
Sale of certificates of deposit	1,632,128
Principal received on note receivable	11,064
Interest received on note receivable	<u>2,243</u>
Net cash used by investing activities	<u>(507,188)</u>
Net decrease in cash and cash equivalents	(414,180)
Cash and cash equivalents beginning of year	<u>911,250</u>
Cash and cash equivalents end of year	<u>\$ 497,070</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 171,428</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	907,454
Changes in assets and liabilities:	
Increase in accounts receivable	(9,540)
Decrease in prepaid expenses	33,223
Increase in accounts payable	135,381
Increase in salary and benefits payable	7,766
Increase in accrued liabilities	<u>66,000</u>
Total adjustments	<u>1,140,284</u>
Net cash provided by operating activities	<u>\$ 1,311,712</u>
Information about noncash investing, capital, and financing activities:	
Amortization on revenue notes	7,447
Amortization on general bonds	10,013
Loss on disposal of capital assets	658

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clear Lake Sanitary District is incorporated under the laws of the State of Iowa. The District operates under a Board of Trustees consisting of five members. The District is an independent taxing authority organized under Chapter 358 of the Iowa Code and has the ability to issue debt. The purpose of the District is to safely collect, treat, and properly dispose of wastewater generated by businesses and residents in an effort to protect the environment with an emphasis on lake water quality. Its territory includes the City of Clear Lake, Iowa, and Ventura, Iowa and the unincorporated area surrounding the lake, and is located in Cerro Gordo County.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

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

Basis of Presentation

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

Revenue Fund – The majority of the District's revenue begins in this fund and is then distributed to the various funds according to bond requirements. The District has designated \$125,000 to remain in this fund after all other revenue is distributed.

Operations & Maintenance Fund – Most of the District's basic services are reported here, which include providing sanitary sewer lines and facilities for the safe treatment and disposal of wastewater for property owners in the District. Revenue is transferred to this fund each month to cover operating and maintenance expenses.

Sinking Fund – Revenue is transferred to this fund to cover the principal and interest payments on the Sewer Revenue Refunding Capital loan. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Reserve Fund – This fund must maintain a balance equal to the lesser of a) the maximum annual amount of the principal and interest payment coming due on the note, b) 10% of the stated principal amount of the note, or c) 125% of the average annual principal and interest coming due on the note.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2014

Sewer Revenue Improvement Fund – This fund represents funds that are available for the payments of interest or principal when the Sinking Fund has insufficient funds available. If not needed for that purpose, then the funds can be used for the cost of extraordinary maintenance expenses or repairs, renewals and replacements, or other capital improvements not included in the annual budget of revenues and current expenses. Each month, \$7,500 should be set aside until the funds reach \$250,000.

Capital Improvement Fund – This fund represents funds that are available for upcoming capital improvements. The remaining revenue is distributed to this fund after all other fund balance requirements have been met.

Debt Service Fund – This fund is utilized to account for the payment of interest and principal on the District's general obligation long-term debt.

Replacement Fund – This fund represents an amount designated by the Board of Trustees for future equipment replacement and improvements.

Measurement Focus and Basis of Accounting

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash, Investments and Cash Equivalents – The District considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2014 include certificates of deposit of \$3,485,457.

Restricted Investments – Funds set aside for payment of sinking fund, reserve fund, debt service fund and county sewer line fund costs are classified as restricted.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2014

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the District as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

Buildings and Improvements	30 – 40 years
Machinery and Equipment	4 – 20 years
Sewer Infrastructure	8 – 50 years

Long-term Obligations – Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as deferred charges and are amortized over the life of the bonds.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Employees are also allowed to bank overtime as comp time to be used at a later date. Accumulated sick leave is not paid out upon retirement or termination of employment. The District's liability for accumulated vacation and comp time at June 30, 2014 and 2013, was \$12,672 and \$11,166, respectively. This liability has been computed based on rates of pay in effect at June 30, 2014 and 2013.

NOTE 2. CASH AND POOLED INVESTMENTS

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or 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 District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Investments are in certificates of deposit and are stated at fair value.

At June 30, 2014, the District had the following investments:

<u>Certificates of Deposit</u>	<u>Interest Rate</u>	<u>Date Matures</u>	<u>Cost</u>	<u>Fair Value</u>
Farmers State Bank	1.10%	11/21/14	\$ 813,251	\$ 813,251
Farmers State Bank	1.10%	12/21/14	534,305	534,305
Farmers State Bank	0.85%	06/20/16	615,154	615,154
Farmers State Bank	0.75%	08/21/16	1,005,620	1,005,620
Farmers State Bank	0.75%	12/21/16	<u>517,127</u>	<u>517,127</u>
			<u>\$ 3,485,457</u>	<u>\$ 3,485,457</u>

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 3. NOTES RECEIVABLE

On January 8, 2008, the District entered into an agreement with the City of Clear Lake to loan them \$120,000 to financially assist with the installation of sanitary sewer infrastructure serving the Industrial Park 3rd Addition. This loan of \$120,000 at four percent (4.0%) interest for a term of seven years will be forgivable proportionate to the culmination of sewer use and property tax revenues received by the District as generated by businesses/parcels within the Industrial Park 3rd Addition during the seven year term beginning January 1, 2008 and ending December 31, 2014.

The note's interest and principal payments are due from the City of Clear Lake as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 98,871	\$ 28,710	\$ 127,581

NOTE 4. LONG-TERM LIABILITIES

General obligation bonds and revenue bonds have been issued by Clear Lake Sanitary District to improve the sanitary sewer plant and collection system. These bonds were refinanced in 2011 and are required to be fully paid within 6 years from the date of issue and are backed by the full faith and credit of the Clear Lake Sanitary District.

Annual debt service requirements to maturity for general obligation and revenue bonds of the District as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 900,000	\$ 47,814	\$ 947,814
2016	915,000	33,915	948,915
2017	930,000	16,620	946,620
Totals	<u>\$2,745,000</u>	<u>\$ 98,349</u>	<u>\$ 2,843,349</u>

A summary of the terms of the general obligation and revenue bond issues are as follows:

Project Construction – Iowa State Revolving Fund – Series 2010. Originally issued 2/25/97, refinanced 10/28/10, maturity date 6/1/17. Interest rate is from 0.80% to 2.25%. Outstanding balance as of June 30, 2014 and 2013, were \$1,170,000 and \$1,550,000, respectively.

Refinancing/refunding and sewer improvements – Series 2010B. Originally issued 5/31/05, refinanced 11/30/10, maturity date 6/1/17. Interest rate is from 0.60% to 1.95%. Outstanding balance as of June 30, 2014 and 2013, were \$1,575,000 and \$2,085,000, respectively.

The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation capital loan notes dated May 2005 include the following provision:

The notes will be redeemed by a levy of annual tax on all taxable property in the Sanitary District, Cerro Gordo County, Iowa.

The resolutions providing for the issuance of the Clean Water State Revolving Fund loan dated February 1997 includes the following provision:

A Sinking Fund shall be created. The Sinking Fund shall be used solely for the purpose of paying principal and interest on the loan.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 5. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as required supplementary information.

NOTE 6. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$45,469, \$39,920, and \$38,915 respectively, equal to the required contribution for each year.

NOTE 7. LONG-TERM CONTRACT

The District entered into a contract with Alliant Energy (IPL) on July 25, 2003 for water use and discharge services for the term of 25 years, subject to right of termination by both parties. IPL shall have the option to extend the term of this agreement for a renewable term of 10 years from the expiration of the initial term. IPL paid for the direct costs associated with the design, procurement, and construction of certain improvements to the District's Wastewater Treatment System. IPL makes monthly payments to the District, which began at \$18,000 per month and will adjust annually on the anniversary date by the percent increase or decrease in the Consumer Price Index, All Urban Consumers, U.S. City Average (CPI-U). Total received on the contract for the year ended June 30, 2014 was \$263,516.

NOTE 8. CAPITAL ASSETS

A summary of capital assets at June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 62,232	\$ ---	\$ ---	\$ 62,232
Construction-in-progress	70,959	87,147	9,629	148,477
Total capital assets not being depreciated	<u>\$ 133,191</u>	<u>\$ 87,147</u>	<u>\$ 9,629</u>	<u>\$ 210,709</u>
Capital assets being depreciated:				
Buildings	\$ 6,292,628	\$ ---	\$ ---	\$ 6,292,628
Improvements	347,226	19,451	---	366,677
Machinery & equipment	1,842,276	120,234	7,461	1,955,049
Sewer infrastructure	23,746,843	52,519	---	23,799,362
Total capital assets being depreciated	<u>\$ 32,228,973</u>	<u>\$ 192,204</u>	<u>\$ 7,461</u>	<u>\$ 32,413,716</u>
Less accumulated depreciation for:				
Buildings	\$ (2,435,078)	\$ (169,596)	\$ ---	\$ (2,604,674)
Improvements	(77,383)	(10,820)	---	(88,203)
Machinery & equipment	(1,550,601)	(105,593)	(6,803)	(1,649,391)
Sewer infrastructure	(12,335,319)	(621,445)	---	(12,956,764)
Total accum. depreciation for capital assets depreciated	<u>\$ (16,398,381)</u>	<u>\$ (907,454)</u>	<u>\$ (6,803)</u>	<u>\$ (17,299,032)</u>
Total capital assets, net	<u>\$ 15,963,783</u>	<u>\$ (628,103)</u>	<u>\$ 10,287</u>	<u>\$ 15,325,393</u>

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 9. RISK MANAGEMENT

The District is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose approximate 659 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The District's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The District's contributions to the Pool for the year ended June 30, 2014 were \$35,864.

NOTE 10. DUE FROM AND DUE TO OTHER FUNDS

The detail of inter-fund receivables and payables at June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvement	Revenue	\$ (260,477)
Debt Service	Capital Improvement	1,515,000
Sinking	Capital Improvement	1,116,000
Capital Improvement	Various	(2,384,867)
Operations & Maintenance	Capital Improvement	14,344

NOTE 11. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 10, 2014, the date which the financial statements were available to be issued.

NOTE 12. 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 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 District's proportionate share of the employee pension plan.

Required Supplementary Information

CLEAR LAKE SANITARY DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances - Budget & Actual (Cash Basis)
Required Supplementary Information
For the Year Ended June 30, 2014

	Total Actual	Final Budget	Final to Actual Variance
Receipts:			
Real estate and personal property taxes	\$ 811,602	\$ 810,176	\$ 1,426
Sewer rentals and connection fees	1,387,674	1,400,539	(12,865)
Interest income	37,103	36,000	1,103
Alliant project	263,516	267,000	(3,484)
County sewer	20,340	21,000	(660)
Other	<u>74,742</u>	<u>77,900</u>	<u>(3,158)</u>
Total receipts	<u>2,594,977</u>	<u>2,612,615</u>	<u>(17,638)</u>
Disbursements:			
Operations, maintenance & replacement	1,299,783	1,237,568	62,215
County sewer	15,122	20,300	(5,178)
Capital improvements	269,721	775,028	(505,307)
Debt service fund	550,552	541,010	9,542
Sinking fund	<u>415,889</u>	<u>408,862</u>	<u>7,027</u>
Total disbursements	<u>2,551,067</u>	<u>2,982,768</u>	<u>(431,701)</u>
Excess (deficiency) of receipts over (under) disbursements	43,910	(370,153)	414,063
Balances, beginning of year	<u>3,914,739</u>	<u>2,254,883</u>	<u>1,659,856</u>
Balances, end of year	<u>\$ 3,958,649</u>	<u>\$ 1,884,730</u>	<u>\$ 2,073,919</u>

See accompanying independent auditor's report.

**CLEAR LAKE SANITARY DISTRICT
 Budget to GAAP Reconciliation
 Required Supplementary Information
 For the Year Ended June 30, 2014**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,594,977	\$ 9,541	\$ 2,604,518
Expenditures/expenses	<u>(2,551,067)</u>	<u>43,121</u>	<u>(2,507,946)</u>
Net	43,910	52,662	96,572
Beginning fund balances/net position	<u>3,914,739</u>	<u>12,590,468</u>	<u>16,505,207</u>
Ending fund balances/net position	<u>\$ 3,958,649</u>	<u>\$ 12,643,130</u>	<u>\$ 16,601,779</u>

See accompanying independent auditor's report.

CLEAR LAKE SANITARY DISTRICT
Notes to Required Supplementary Information - Budgetary Reporting
For the Year Ended June 30, 2014

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41.

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

Formal and legal budgetary control is based upon business type activities. Function disbursements required to be budgeted include disbursements for the General Fund and the Debt Service Fund. During the year, no budget amendments were made.

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

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

To the Board of Trustees
Clear Lake Sanitary District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clear Lake Sanitary District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Clear Lake Sanitary District's basic financial statements and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clear Lake Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clear Lake Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Clear Lake Sanitary District's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as Item (A), that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clear Lake Sanitary District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Clear Lake Sanitary District's Response to Findings

Clear Lake Sanitary District's response to the findings identified in our audit are described in the accompanying schedule of findings. Clear Lake Sanitary District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, IA

December 10, 2014

CLEAR LAKE SANITARY DISTRICT
Schedule of Findings
For the Year Ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the District:
- (1) Accounting system - record keeping for revenues, expenses and related reporting.
 - (2) Receipts - collecting, depositing, journalizing and posting.
 - (3) Payroll - changes to master list, preparation and distribution

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff or Board members.

Response - We recognize our limitations, however, it is not fiscally responsible to add additional staff at this time.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Expenses - No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of District officials or employees were noted.
- (3) Board Minutes - No transactions were found that we believe should have been approved in the District minutes but were not.
- (4) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.
- (5) Bond Coverage - Surety bond coverage of District trustees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.