

ALBIA MUNICIPAL WATERWORKS  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENT  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2015

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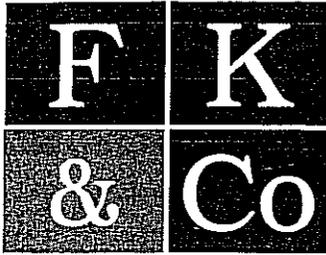
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ALBIA MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before April, 2015)		
Jack Scieszinski	Chairman	April 2, 2017
Charlie Sinnott	Secretary	April 2, 2015
Helen Foster	Trustee	April 2, 2019
Patty Stuchel	Office Manager	Indefinite
Amy Robinson	Clerk	Indefinite
(After April, 2015)		
Jack Scieszinski	Chairman	April 2, 2017
Charlie Sinnott	Secretary	April 2, 2021
Helen Foster	Trustee	April 2, 2019
Patty Stuchel	Office Manager	Indefinite
Amy Robinson	Clerk	Indefinite

Albia Municipal Waterworks



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Albia Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Albia Municipal Waterworks, Albia, Iowa, (Waterworks) as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement 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 Waterworks 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 statement.

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the Waterworks adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

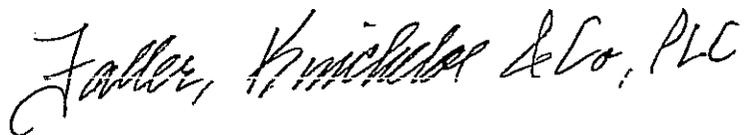
Our audit was conducted for the purpose of forming an opinion on the Waterworks financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 respects in relation to the financial statement taken as a whole.

The other information, the Waterworks' Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 7 through 9 and 21 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2106, on our consideration of Waterworks internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 Waterworks internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
February 12, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Albia Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

### 2015 FINANCIAL HIGHLIGHTS

The Waterworks' total receipts increased 11%, or approximately \$153,000, from fiscal year 2014 to fiscal year 2015.

The Waterworks' total disbursements increased 3%, or approximately \$41,000, from fiscal year 2014 to fiscal year 2015. In fiscal year 2015, the Waterworks paid an additional \$56,767 over the prior year to the City of Albia for sewer and landfill fees remitted to the City.

The Waterworks total cash basis fund balances increased 63%, or approximately \$133,000, from June 30, 2014 to June 30, 2015.

### USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2015.

## FINANCIAL ANALYSIS OF THE WATERWORKS

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balances*

The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balances.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. The City of Albia pays the Waterworks contract fees to include sewer and landfill charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2015 and June 30, 2014 is presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2015	2014
<b>Receipts:</b>		
Use of money and property	\$ 15,062	13,348
Charges for service	906,648	832,467
Sewer and landfill fees collected for City	522,452	451,222
Miscellaneous	82,132	75,843
Total receipts	<u>1,526,294</u>	<u>1,372,880</u>
<b>Disbursements:</b>		
Distribution expenses	93,695	105,130
Distribution outlay	45,299	33,385
Administration and other expenses	641,433	658,030
Sewer and landfill fees remitted to City	509,544	452,777
Debt service:		
Principal paid	71,000	69,000
Interest and trustee fees paid	29,413	31,655
Capital outlay	2,730	1,760
Total disbursements	<u>1,393,114</u>	<u>1,351,737</u>
Net change in cash balance	133,180	21,143
Cash balance beginning of year	210,494	189,351
Cash balance end of year	<u>\$ 343,674</u>	<u>210,494</u>
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Bond principal and interest payments	\$ 9,987	9,600
Customer water deposits	95,554	93,818
Sewer and landfill charges	49,067	36,158
Total restricted cash basis fund balance	<u>154,608</u>	<u>139,576</u>
Unrestricted	<u>189,066</u>	<u>70,918</u>
Total cash basis fund balance	<u>\$ 343,674</u>	<u>210,494</u>

The Waterworks' unrestricted cash balance is available for use in the routine operation of the distribution and administrative areas of the Waterworks and for capital improvements in the distribution area. The Waterworks' restricted cash balances are restricted funds for the repayment of the bond principal and interest payments, customer water deposits, and sewer and landfill charges due to the City.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Waterworks amended its budget once. The amendment resulted in an increase in budgeted receipts and disbursements related to business type activities.

The Waterworks total receipts were approximately \$18,000 more than budgeted. The Waterworks total disbursements were approximately \$105,000 less than budgeted for the year.

### **DEBT ADMINISTRATION**

At June 30, 2015, the Waterworks had \$834,000 in revenue bonds outstanding, compared to \$905,000 at June 30, 2014.

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

The Waterworks appointed officials considered many factors when setting the fiscal year 2016 budget, including water main replacements, upkeep of current mains and fees that will be charged.

Current economic conditions beyond the Waterworks Trustees control play a significant role in the daily operations of the distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the distribution of water.
- The need to maintain up-to-date technology at a reasonable cost.

### **CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional information, contact Jack Scieszinski, Albia Municipal Waterworks Chairman, 120 South A Street, Albia, IA 52531.

**Financial Statement**

## ALBIA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BALANCE

As of and for the year ended June 30, 2015

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 906,648
Miscellaneous	82,132
Total operating receipts	<u>988,780</u>
Operating disbursements:	
Business type activities	780,427
Total operating disbursements	<u>780,427</u>
Excess of operating receipts over operating disbursements	<u>208,353</u>
Non-operating receipts (disbursements):	
Interest on investments	1,709
Tower and ground space lease	13,353
Sewer and landfill fees collected for City	522,452
Sewer and landfill fees remitted to City	(509,544)
Debt service	(100,413)
Capital outlay	(2,730)
Net non-operating receipts (disbursements)	<u>(75,173)</u>
Change in cash balance	133,180
Cash balance beginning of year	<u>210,494</u>
Cash balance end of year	<u>\$ 343,674</u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Bond principal and interest payments	\$ 9,987
Customer water deposits	95,554
Sewer and landfill charges	49,067
Total restricted cash basis fund balance	<u>154,608</u>
Unrestricted	<u>189,066</u>
Total cash basis fund balance	<u>\$ 343,674</u>

See notes to financial statement.

ALBIA MUNICIPAL WATERWORKS  
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Albia Municipal Waterworks (Waterworks) is a component unit of the City of Albia, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

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

D. Restricted Assets and Net Assets

Funds set aside for bond principal and interest payments, customer water deposits and sewer and landfill charges due to the City are classified as restricted.

E. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The Waterworks deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water 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 Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The Waterworks 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 Waterworks.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	
2016	\$ 73,000	25,020	98,020
2017	75,000	22,830	97,830
2018	77,000	20,580	97,580
2019	80,000	18,270	98,270
2020	82,000	15,870	97,870
2021	84,000	13,410	97,410
2022	87,000	10,890	97,890
2023	89,000	8,280	97,280
2024	92,000	5,610	97,610
2025	95,000	2,850	97,850
	<u>\$ 834,000</u>	<u>143,610</u>	<u>977,610</u>

Revenue Bonds

On November 23, 2005, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$1,250,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The \$1,250,000 in funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2006 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,250,000 in water revenue bonds issued in November 2005, and to repay any additional parity obligations which come due during the term of the revenue bonds. The bonds were issued to pay for water main repair and replacement. The bonds are payable solely from water customer net receipts and are payable through 2025. Annual principal and interest payments on the revenue bonds are expected to require less than 48% of net receipts. The total principal and interest remaining to be paid on the revenue bonds is \$977,610. For the current year, principal and interest paid on the revenue bonds and total customer net receipts were \$98,150 and \$208,353 respectively.

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

- (a) The revenue bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.

Note 3. Revenue Bonds Payable (continued)

- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.
- (e) All users of the System, including the City, shall pay for usage.

Note 4. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Note 4. Pension Plan (continued)

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Waterworks contributed 8.93 percent for a total rate of 14.88 percent.

The Waterworks' contributions to IPERS for the year ended June 30, 2015 were \$16,840.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Waterworks' liability for its proportionate share of the collective net pension liability totaled \$111,415. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the collective net pension liability was based on the Waterworks' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Waterworks' proportion was 0.002753 percent, which was an increase of 0.000007 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the Waterworks collective pension expense, collective deferred outflows and collective deferred inflows totaled \$8,339, \$6,128 and \$42,491 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 4. Pension Plan (continued)

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Waterworks' proportionate share of the net pension liability	\$ 210,516	\$ 111,415	\$ 27,764

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Note 5. Other Postemployment Benefits (OPEB)

Plan Description - The Waterworks operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$652.14 for single coverage and \$1,630.36 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2015, the Waterworks contributed \$91,536, and plan members eligible for benefits contributed \$0 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation, compensatory and personal leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation, compensatory and personal leave payable to employees at June 30, 2015 is \$12,671. The liability has been computed based on rates of pay in effect at June 30, 2015.

Note 7. Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	Enterprise:	
Debt service	General	\$ 100,800
Improvement		<u>62,400</u>
Total		<u>\$ 163,200</u>

Transfers generally move resources from the account required to collect the resources to the account statutorily required to disburse the resources.

Note 8. Lease Agreement

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (tenant). The initial term of the lease began in April, 2010. The Waterworks received \$13,353 from this lease in fiscal year 2015, and is scheduled to receive \$1,100 per month from this lease until April, 2020, with four additional (5) year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 10% over the previous year's base rent. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until fiscal year 2040.

Note 9. Risk Management

The Waterworks is a member of 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 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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.

Note 9. Risk Management (continued)

The Waterworks' 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 Waterworks' contributions to the Pool for the year ended June 30, 2015 were \$8,395.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Waterworks does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the Waterworks' financial statement. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 each accident, \$1,000,000 memo limit and \$1,000,000 each employee limit. The Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Waterworks has a partially self-funded health insurance program. The Waterworks funds the deductible amounts, and funds up to \$500 per year per employee for medical related costs not covered by insurance. During the year, the Waterworks reimbursed its employees \$3,036 in relation to the partially self-funded health insurance program.

Note 10. Water Purchase Contract

The Waterworks agreed to a forty year water purchase agreement with Rathbun Regional Water Association in 1999. As part of this forty year agreement, the Waterworks agreed to purchase a minimum of three million gallons of water per month from Rathbun Regional Water Association. The Waterworks currently pays Rathbun Regional Water Association \$2.80 per thousand gallons for the first five million gallons of water purchased per month, and \$1.60 per thousand gallons in excess of five million gallons of water purchased per month. Based on the minimum water purchase requirements of three million gallons of water per month and based on current water rates, the Waterworks will be obligated to pay Rathbun Regional Water Association a minimum of \$100,800 per year for purchased water through the 2039 year.

Note 10. Water Purchase Contract (continued)

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2015, approximately 109,054,000 gallons of water were purchased by the Waterworks. The total cost of water purchased was \$246,486 during the year ended June 30, 2015. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Rathbun Regional Water Association.

Note 11. Subsequent Events

The Waterworks has evaluated subsequent events through February 12, 2016, which is the date that the financial statement was available to be issued.

**Other Information**

ALBIA MUNICIPAL WATERWORKS  
 BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE  
 BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

Year ended June 30, 2015

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 15,062	1,825	1,825	13,237
Charges for service	1,429,100	1,366,900	1,446,550	(17,450)
Miscellaneous	82,132	59,800	59,800	22,332
Total receipts	<u>1,526,294</u>	<u>1,428,525</u>	<u>1,508,175</u>	<u>18,119</u>
Disbursements:				
Business type activities	<u>1,393,114</u>	<u>1,401,967</u>	<u>1,497,617</u>	<u>104,503</u>
Excess (deficiency) or receipts over (under) disbursements	133,180	<u>26,558</u>	<u>10,558</u>	<u>122,622</u>
Cash balance beginning of year	<u>210,494</u>			
Cash balance end of year	<u>\$ 343,674</u>			

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2015

The Albia Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget 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 classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted receipts by \$79,650 and budgeted disbursements by \$95,650. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed the amount budgeted.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORKS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST FISCAL YEAR\*  
 (IN THOUSANDS)

OTHER INFORMATION

	<u>2015</u>
Waterworks' proportion of the net pension liability	0.002753%
Waterworks' proportionate share of the net pension liability	\$ 111
Waterworks' covered employee payroll	\$ 184
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.33%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)

OTHER INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 17	16	16	14	12	10	9	11	10	9
Contributions in relation to the statutorily required contribution	(17)	(16)	(16)	(14)	(12)	(10)	(9)	(11)	(10)	(9)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Waterworks' covered-employee payroll	\$ 189	184	181	173	170	156	145	177	167	165
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditor's report.

## ALBIA MUNICIPAL WATERWORKS

### NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2015

#### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

#### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

ALBIA MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Customer Deposit	Debt Service	Improve- ment	Total
<b>Operating receipts:</b>					
Charge for service:					
Sale of water to meter customers	\$ 794,363	-	-	-	794,363
Sales of water - tank service	533	-	-	-	533
Collection fee from City	49,200	-	-	-	49,200
Other charges for service	50,587	-	-	-	50,587
Sale of supplies	11,965	-	-	-	11,965
	<u>906,648</u>	-	-	-	<u>906,648</u>
<b>Miscellaneous:</b>					
Sales tax collected	62,474	-	-	-	62,474
Refunds and reimbursements	1,758	-	-	-	1,758
Customer deposits	-	17,900	-	-	17,900
	<u>64,232</u>	<u>17,900</u>	-	-	<u>82,132</u>
Total operating receipts	<u>970,880</u>	<u>17,900</u>	-	-	<u>988,780</u>
<b>Operating disbursements:</b>					
Business type activities:					
Distribution expenses:					
Labor	75,424	-	-	-	75,424
Truck expense	2,264	-	-	-	2,264
Repairs tools and equipment	1,163	-	-	-	1,163
Gasoline and oil	3,355	-	-	-	3,355
Supplies	2,449	-	-	-	2,449
Water tests	1,581	-	-	-	1,581
Electric	1,599	-	-	-	1,599
Shop fuel	1,116	-	-	-	1,116
Shop telephone	482	-	-	-	482
Shop water	510	-	-	-	510
Independent contractor	2,600	-	-	-	2,600
Clothes	1,152	-	-	-	1,152
	<u>93,695</u>	-	-	-	<u>93,695</u>
<b>Distribution outlay:</b>					
Supplies	9,082	-	-	32,976	42,058
Equipment	2,870	-	-	-	2,870
Independent contractor	371	-	-	-	371
	<u>12,323</u>	-	-	<u>32,976</u>	<u>45,299</u>

## ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating disbursements (continued):					
Business type activities (continued):					
Administration and other expenses:					
Salaries	85,178	-	-	-	85,178
Customer service wage	48,271	-	-	-	48,271
Postage	8,966	-	-	-	8,966
Supplies	7,981	-	-	-	7,981
Office rent	1,800	-	-	-	1,800
Telephone	4,506	-	-	-	4,506
Publishing	1,304	-	-	-	1,304
Audit and filing fee	4,835	-	-	-	4,835
Customer deposits	-	16,164	-	-	16,164
School	129	-	-	-	129
Dues	1,598	-	-	-	1,598
Insurance	13,153	-	-	-	13,153
Legal	915	-	-	-	915
Maintenance contracts	4,666	-	-	-	4,666
Employee insurance	97,378	-	-	-	97,378
Sales tax	62,036	-	-	-	62,036
Payroll taxes	33,031	-	-	-	33,031
Employee medical reimbursements	3,036	-	-	-	3,036
Purchased water	246,486	-	-	-	246,486
	<u>625,269</u>	<u>16,164</u>	<u>-</u>	<u>-</u>	<u>641,433</u>
Total operating disbursements	<u>731,287</u>	<u>16,164</u>	<u>-</u>	<u>32,976</u>	<u>780,427</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>239,593</u>	<u>1,736</u>	<u>-</u>	<u>(32,976)</u>	<u>208,353</u>

## ALBIA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Customer Deposit	Debt Service	Improve- ment	Total
Non-operating receipts (disbursements):					
Interest on investments	1,709	-	-	-	1,709
Tower and ground space lease	-	-	-	13,353	13,353
Sewer and landfill fees collected for City	522,452	-	-	-	522,452
Sewer and landfill fees remitted to City	(509,544)	-	-	-	(509,544)
Debt service:					
Principal redemption	-	-	(71,000)	-	(71,000)
Interest paid	-	-	(27,150)	-	(27,150)
Service fees	-	-	(2,263)	-	(2,263)
Capital outlay	-	-	-	(2,730)	(2,730)
Net non-operating receipts (disbursements)	14,617	-	(100,413)	10,623	(75,173)
Excess (deficiency) of receipts over (under) disbursements	254,210	1,736	(100,413)	(22,353)	133,180
Transfers in (out)	(163,200)	-	100,800	62,400	-
Change in cash balances	91,010	1,736	387	40,047	133,180
Cash balances beginning of year	54,214	93,818	9,600	52,862	210,494
Cash balances end of year	\$ 145,224	95,554	9,987	92,909	343,674

See accompanying independent auditor's report.

ALBIA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	11-23-05	3.00%	\$ 1,250,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
11-23-05	\$ 905,000	-	71,000	834,000	27,150	-

See accompanying independent auditor's report.

## ALBIA MUNICIPAL WATERWORKS

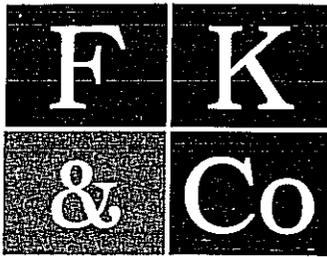
Schedule 3

## BOND MATURITIES

June 30, 2015

Year ending June 30,	Water Revenue Bonds		
	Issued November 23, 2005		
	Interest Rates	Amount	Total
2016	3.00%	\$ 73,000	73,000
2017	3.00%	75,000	75,000
2018	3.00%	77,000	77,000
2019	3.00%	80,000	80,000
2020	3.00%	82,000	82,000
2021	3.00%	84,000	84,000
2022	3.00%	87,000	87,000
2023	3.00%	89,000	89,000
2024	3.00%	92,000	92,000
2025	3.00%	95,000	95,000
		<u>\$ 834,000</u>	<u>834,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the  
Albia Municipal Waterworks:

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 statement of the Albia Municipal Waterworks, Albia, Iowa (Waterworks), as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated February 12, 2016. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' 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. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

## Purpose of this Report

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

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



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
February 12, 2016

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

**Findings Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Water utility billings, collections, deposits, posting to customer accounts and the cash receipts journal and reconciliation of billings to collections and delinquent accounts are all sometimes done by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

**Recommendation** – We realize segregation of duties is difficult with a limited number of office employees. However, the Albia Municipal Waterworks (Waterworks) should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Waterworks officials.

**Response** – The Waterworks will, to the best of our abilities, continue to review this and attempt to segregate duties as much as possible.

**Conclusion** – Response acknowledged.

- (B) **Financial Reporting** – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The Waterworks does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

**Recommendation** – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the Waterworks continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

**Response** – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

**Conclusion** – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted.
- (2) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of Albia Municipal Waterworks (Waterworks) money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) Business Transactions - Business transactions between the Waterworks and Waterworks officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jack Scieszinski, Board Member Part-owner of Albia Motor Co.	Maintenance	\$1,422

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions do not appear to represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions were less than \$1,500 during the fiscal year.

- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.
- (8) Revenue Bonds - No instances of non-compliance with the revenue bond requirements for the year ended June 30, 2015 were noted.
- (9) Taxable Fringe Benefits - Personal use of a Waterworks vehicle is not taxed to a Waterworks employee as a taxable fringe benefit, as required by the Internal Revenue Service (IRS) regulations.

Recommendation - Personal use of a Waterworks vehicle should be taxed as a taxable fringe benefit in accordance with IRS regulations.

Response - We will review this.

Conclusion - Response acknowledged.